



THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

SEP 28 2018

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2018

As Secretary of the Navy, I recognize that the Department of the Navy (DON) is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The DON conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and the Government Accountability Office (GAO) publication GAO-14-704G, Standards for Internal Control in the Federal Government. Based on the results of the assessment, as of the date of this memorandum, the DON can provide the following assurance levels:

- Internal Controls over Operations (ICO) – Reasonable Assurance, except for nine ICO material weaknesses (MW) identified
- Internal Control over Financial Reporting (ICOFR) – Controls are not in place to provide Reasonable Assurance, due to 20 MWs identified
- Internal Controls over Financial Systems (ICOFS) – Controls are not in place to provide Reasonable Assurance, due to five nonconformances identified

The annex of classified and Special Access Programs (SAP) MWs has been forwarded through special access to the Office of the Secretary of Defense SAP Classified Office.

The "Internal Control Evaluation" section provides specific information on how the DON conducted the assessment of ICO. Based on the results of the assessment, as of the date of this memorandum, the DON can provide reasonable assurance, except for the nine MWs reported in the "Operational Material Weaknesses" section (beginning on page 25), that internal controls over operations and compliance were operating effectively as of 30 September 2018.

The "Internal Control Evaluation" section also provides specific information on how the DON conducted the assessment of ICOFR. Based on the results of the assessment, the DON does not have controls in place to provide reasonable assurance that internal controls over reporting (including external financial reporting) and compliance were operating effectively as of 30 September 2018 in accordance with OMB Circular No. A-123, Appendix A, due to the 20 MWs reported in the "Financial Reporting Material Weaknesses" section (beginning on page 42).

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The DON also conducted a limited internal review of the effectiveness of internal controls over the integrated financial management systems in accordance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208) and OMB Circular No. A-123, Appendix D. The "Internal Control Evaluation" section provides specific information on how the DON conducted the assessment of ICOFS. Based on the results of this assessment, the DON internal controls over the financial systems do not fully conform to the objective of FFMIA and OMB Circular No. A-123, Appendix D, due to the five nonconformance items reported in the "Financial Management Systems Material Weaknesses/Nonconformances" section (beginning on page 97) as of 30 September 2018.

My point of contact for any questions regarding the Statement of Assurance for fiscal year 2018 is Captain Milton W. Troy, III, who can be reached at (202) 433-9228 or milton.troy@navy.mil.



Richard V. Spencer

Attachments:
As stated

FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2018
STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY

OFFICIAL USE ONLY

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Introduction

The mission of the Department of the Navy (DON) is to maintain, train, and equip combat-ready Naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas.

The DON is composed of the following organizations:

- Executive offices in Washington, D.C.;
- Operating forces, including the Marine Corps, reserve components, and, in time of war, the U.S. Coast Guard (in peace, a component of the Department of Homeland Security); and
- Shore establishments.

DON management evaluated the system of internal controls in effect during the fiscal year (FY) as of the date of this memorandum, according to the guidance in Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and Government Accountability Office (GAO) publication GAO-14-704G, Standards for Internal Control in the Federal Government. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Included is the DON's evaluation of whether the DON's system of internal controls complies with standards prescribed by the Comptroller General.

The objectives of the DON's system of internal controls are to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208).

The evaluation of internal controls extends to every responsibility and activity undertaken by the DON, and applies to program, administrative, and operational controls. The concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, Congressional restrictions, and other factors. Projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate due to changes in conditions, or deterioration in the degree of compliance. This statement of reasonable assurance over Internal Controls over Operations (ICO) is provided within the limits of the preceding description. The DON does not have controls in place to provide reasonable assurance over Internal Control over Financial Reporting (ICFR) and Internal Controls over Financial Systems (ICOFS) and is providing this statement to reflect such assurance.

DON Managers' Internal Control Program Governance

The DON implemented a comprehensive internal control governance structure to monitor risks, effectiveness of internal controls, remediation of deficiencies, and to report progress in the annual Statement of Assurance (SOA). The governance structure and the roles and responsibilities of each governing body is illustrated in Figure 1.

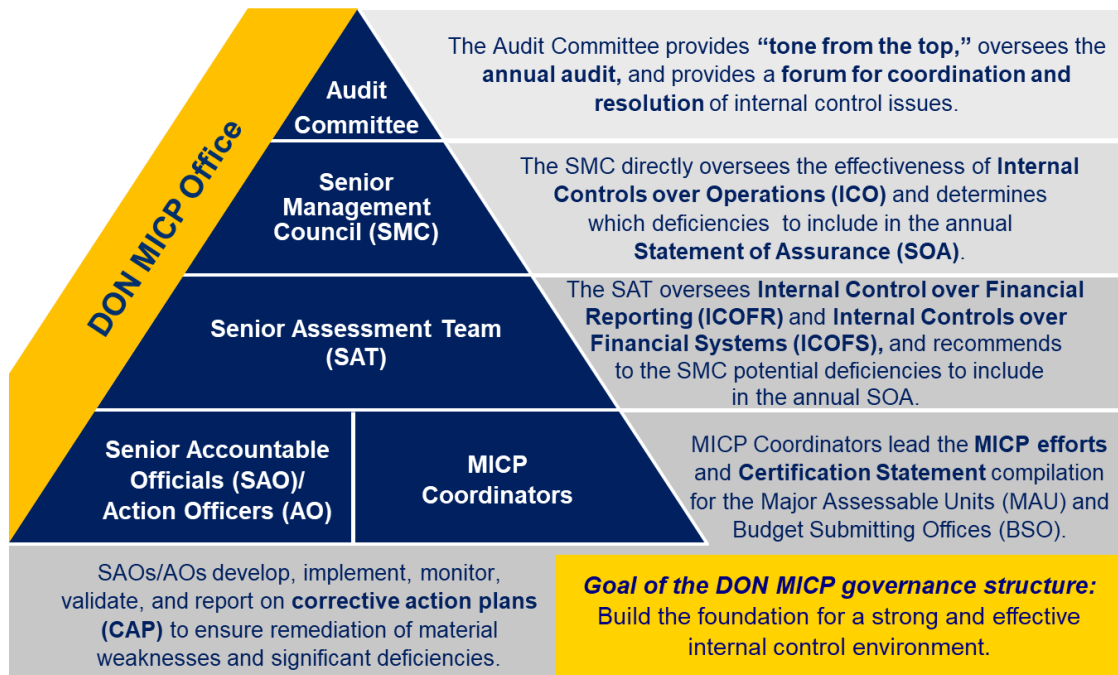


Figure 1: DON MICP Governance Structure

The DON Audit Committee, chaired by the Under Secretary of the Navy, represents the DON’s senior-level functional leadership and expertise, provides dedicated oversight of internal control compliance, and oversees the annual audit of the financial statements. In FY 2018, the Audit Committee assigned end-to-end process owners (below) to lead the DON’s functional business process areas and be responsible for policy development, implementation, and compliance, as well as resolution of deficiencies identified through the Managers’ Internal Control Program (MICP) or other programs (e.g. independent public accountant (IPA) Notice of Findings and Recommendations (NFR)).

End-to-End Process	Process Owner
Acquisition Life Cycle	Assistant Secretary of the Navy (ASN) (Research, Development, and Acquisition) (RD&A)
Audit Response & Accountability	Chief of Naval Operations (CNO) and Commandant of the Marine Corps (CMC)
Contingent Legal Liabilities	Office of General Counsel
Contract Management	ASN (RD&A)
Environmental Liabilities	ASN (Energy, Installations, and Environment) (EI&E)
Financial Management Reporting	ASN (Financial Management and Comptroller) (FM&C)
Human Resource Reporting	ASN (Manpower and Reserve Affairs) (M&RA)
Inventory – Working Capital Fund (WCF) Supply Chain	CNO and CMC
Logistics & Supply Chain	CNO and CMC
Military Pay (MILPAY)/ Civilian Pay (CIVPAY)	ASN (M&RA)
Operating Materials and Supplies	CNO and CMC
Real Property	ASN (EI&E)

The Secretary of the Navy and the Audit Committee are advised by the DON's Senior Management Council (SMC), which oversees the DON's MICP, regarding the state of the DON's internal control risk, testing, compliance, corrective action remediation, and reporting. The SMC is responsible for assessing DON-wide ICO compliance.

For purposes of assessing DON-wide ICO, each Echelon I command is considered a major assessable unit (MAU) (refer to "Internal Control Evaluation: ICO" for a list of ICO MAUs). A Senior Executive Service (SES) member or flag officer from each of these MAUs comprise the DON's SMC, which is co-chaired by the Principal Deputy ASN (FM&C) and Director of the Office of the DON Chief Management Officer.

The SMC is responsible for independently monitoring and validating the effectiveness and compliance of the DON's enterprise-wide ICO processes by

- Ensuring MAUs conduct annual risk and internal control assessments across all echelons to gauge whether key internal control objectives are understood and compliant;
- Determining new DON-level material weaknesses (MW) or significant deficiencies (SD), and coordinating with applicable end-to-end process owners to prioritize deficiencies and assign remediation accountability to specific DON senior accountable officials (SAO);
- Monitoring and reviewing the implementation of all MW and SD corrective action plans (CAP) and determining when sufficient action has been taken to downgrade or close deficiencies; and
- Reporting results and determining the ICO, ICOFR, and ICOFS MWs and SDs reported in the DON SOA.

The Senior Assessment Team (SAT) is the governing body that oversees ICOFR and ICOFS compliance. It is comprised of comptrollers for DON budget submitting offices (BSO) (refer to "Internal Control Evaluation: ICOFR" for a list of BSOs). The SAT is co-chaired by the Deputy Assistant Secretary of the Navy (Financial Policy and Systems) and the Deputy Assistant Secretary of the Navy (Financial Operations). The SAT performs similar ICOFR and ICOFS oversight functions as the SMC performs for ICO as described above, annually assessing the state of the DON's financial risk and internal controls health. The SAT also determines whether new deficiencies exist and whether known MWs or SDs have been remediated. While the SAT recommends the approval of new or closure of existing MWs or SDs, the SMC is responsible for final approval.

SAOs are DON SES members or flag officers that have been assigned a specific deficiency. They are responsible for remediating the deficiency and for reporting remediation status to the SMC and SAT. SAOs are assisted by action officers (AO) that implement the CAP(s) to remediate a weakness or deficiency.

MICP coordinators are the working-level internal control representatives for their activity. They are responsible for ensuring risk assessments are completed, controls are designed and operating effectively, deficiencies are identified and reported, corrective actions are developed and executed, and internal control certification assurance statements are prepared.

Financial Information Systems Working Group

The Financial Information Systems Working Group (FISWG), co-chaired by designees from the ASN (FM&C) and the DON Office of the Chief Information Officer (OCIO), provides management over DON financial systems. In FY 2018, the FISWG empowered DON functional area managers (FAM) to be the office of primary responsibility (OPR) for information technology (IT) NFR remediation. The FAMs will provide oversight and support to the system owners and AOs responsible for remediating IT NFRs issued by the financial statement IPA from the FY 2017 audit. Any DON-wide financial system MW or SD is brought to the SMC and SAT governance bodies for approval and oversight.

Guidance and Training

The DON enhanced the MICP Certification Statement Guidebook for FY 2018 to standardize and increase the effectiveness of the annual SOA process. The Guidebook provides guidance on reporting requirements based on the following elements outlined in OMB Circular No. A-123:

- Conducting a risk assessment;
- Developing, implementing, and reporting on internal control testing;
- Identifying an internal control deficiency and developing a CAP;
- Reporting results and remediation status; and
- Preparing a MAU or BSO Certification Statement.

The Guidebook provides detailed instructions and templates to facilitate Certification Statement compilation. Because of MICP maturation, increased adoption, and better reporting, the DON MICP Office was able to report the preliminary results for risk assessments, testing, and deficiency status to the SMC and SAT.

The DON MICP Office provided multiple offerings of a two-day instructor-led FY 2018 Certification Statement Guidebook “boot camp” for MICP coordinators, MICP alternate coordinators, and other interested stakeholders. Training materials were also made available on the DON MICP SharePoint site with accompanying resources. The boot camp provided a basic MICP overview that outlined the MICP governance structure and available resources. The training also addressed the reporting requirements and timeline for MAU and BSO Certification Statements. Finally, the training provided deep dives and exercises on the Certification Statement components, including a break-down of template fields.

The DON MICP Office also converted instructor-led trainings to web-based training for on-demand access. The trainings converted were: MICP 101 (MICP Overview); MICP 102 (ICO Lifecycle); and MICP 103 (ICOFR/ICOFS Lifecycle).

Additional on-the-job training and guidance was provided to MAU and BSO MICP coordinators as part of the DON MICP Office’s customer outreach strategy, which included providing tailored support through dedicated teams assigned to each MAU and BSO. Hands-on sessions were conducted throughout the year via site visits, teleconferences, office calls, and in-person briefings to answer any questions related to specific MAU and BSO MICP deliverables. Feedback on how to improve draft deliverables was provided directly to MICP coordinators as they were improving the completeness of their risk assessments and preliminary internal control test plans. The DON MICP

office also held monthly MICP coordinator discussions with all MAU and BSO MICP coordinators to provide program updates and guidance, and to address common issues related to MICP and the Certification Statement preparation process.

Entity-Level Control Analysis

Section 10.09 of the Government Accountability Office (GAO) publication GAO-14-704G, Standards for Internal Control in the Federal Government (the “Green Book”), defines entity-level controls (ELC) as controls that have a pervasive effect on an entity’s internal control systems. While ELCs are not necessarily controls at the process or transaction level, they enable and support these controls and create a culture that promotes internal controls throughout the DON. The overarching ELCs help set the tone and importance of internal controls through published policies, regular risk assessments, and programs to monitor internal controls (e.g., MICP).

In FY 2018, the DON performed a design assessment of ELCs in accordance with Green Book standards by documenting ELCs, conducting interviews, and obtaining key supporting documents (KSD). The DON facilitated meetings with the ELC-owning MAUs and administered questionnaires to assess enterprise-wide risks and control activities. A detailed review of the 17 GAO Green Book Principles of Effective Internal Controls was performed to provide ELC-owning MAUs an understanding of the key principles, attributes, and examples of KSDs. Process walkthroughs were performed to review current procedures and confirm each organization’s roles and responsibilities with respect to DON policies and procedures. The ELCs focus on areas such as ethics, standards of conduct, employee performance, governance structures, fraud monitoring and reporting, risk assessment, and organizational structures. This assessment confirmed there is a foundation of ELCs across the DON, with a few controls requiring improvement and development. The DON has an environment of internal controls through tone-at-the-top, published policies and procedures, and the establishment of governance bodies that monitor risks and deficiencies.

The DON will continue to execute design and operating effectiveness testing on an annual basis by documenting MAU and BSO controls in place to ensure compliance with the ELCs and obtaining evidentiary artifacts to support compliance. ELCs will continue to be rationalized and refined to continuously enhance the DON’s internal control environment in accordance with reporting standards.

Risk Assessment Approach

The approach to this year’s risk assessment emphasized structured self-reporting, focusing on identifying mission and objective risk, the impact and likelihood of those risks, and mitigation strategies to strengthen internal controls associated with those risks. MAUs and BSOs built on FY 2017 submissions by assessing 28 mission and objective areas and associated risks, with MAUs focusing on enterprise-wide ICO areas and BSOs focusing on ICOFR and ICOFS areas specific to their organization.

MAUs and BSOs were required to assess eight ICO mission and objective areas, such as Data Protection and MICP. BSOs were also required to assess 22 ICOFR and ICOFS mission and objective areas¹, including CIVPAY and Contract/Vendor Pay.

¹ Military Pay and Resource Constraints were both ICO and ICOFR/ICOFS mission/objective areas.

The DON assessed internal reviews, audits, and inspections conducted by the Naval Audit Service, Naval Inspector General, Department of Defense Inspector General, and the GAO, NFRs issued by IPAs during the financial statement audit, and the FY 2017 Risk and Opportunity Assessment to identify potential additional risks. These risks, along with the preliminary results of the risk assessments, were presented to the SMC and SAT to discuss risks that should be included in the SOA.

The DON is continuing to mature the MICP risk assessment process by strengthening DON-wide and organization-specific risk identification and bridging any remaining gaps. The process continues to build a common foundation, to mature the risk management application and training, and to further develop a risk-conscious management culture across the DON.

Internal Control Evaluation: ICO

Department of the Navy (DON) management evaluated the system of internal controls in accordance with the guidelines identified earlier. The results indicate that the system of operational internal controls of the DON, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved with the exception of the nine MWs reported in the “Operational Material Weaknesses” section. This position on reasonable assurance is within the limits described in the introduction paragraph.

Primary responsibility for Internal Controls over Operations (ICO) execution resides within a network of 17 MAUs:

- Chief of Naval Operations (CNO);
- Commandant of the Marine Corps (CMC);
- Office of the General Counsel (OGC);
- Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN (RD&A));
- Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C));
- Assistant Secretary of the Navy (Energy, Installations, and Environment) (ASN (EI&E));
- Assistant Secretary of the Navy (Manpower and Reserve Affairs) (ASN (M&RA));
- Deputy Under Secretary of the Navy (Management) (DUSN(M))²;
- Deputy Under Secretary of the Navy (Policy) (DUSN (P));
- Office of the Judge Advocate General (OJAG);
- Naval Inspector General (NAVINSGEN);
- Office of Legislative Affairs (OLA);
- Office of Naval Research (ONR);
- Navy Office of Information (CHINFO);
- Naval Audit Service (NAVAUDSVC);
- Naval Criminal Investigative Service (NCIS); and
- Office of Small Business Programs (OSBP).

Each of the DON’s 17 MAUs define the assessable units (AU) within their organization based on those most critical to the organization’s mission and strategic objectives. The MAUs executed their internal control process which includes risk assessment, control testing, deficiency identification and subsequent corrective actions, and reporting results in their Certification Statement. These Certification Statements and their supporting enclosures are the primary source documents for the determination of reasonable assurance over the effectiveness of the DON’s non-financial operations and processes.

² Per the 16 March 2018 “Restructure of Secretariat Functions” memo from the Under Secretary of the Navy, DUSN(M) will be disestablished and replaced by the Office of the DON Chief Management Officer (OCMO). A small Office of the DON Chief Information Officer (OCIO) will remain for statutory compliance with most of the CIO functions being divested to the DON components. For FY 2018, the DON Assistant for Administration (DON/AA) provided a certification statement for the components previously comprising DUSN(M) for inclusion in the DON Statement of Assurance.

ICO DON-Wide Initiatives

The DON tests key internal controls within various business processes, using a variety of testing methodologies, and maintains documentation to support its evaluation and level of assurance. Below are highlights of ICO internal control test focus areas for the fiscal year (FY) 2018 testing cycle:

- **Sexual Assault Prevention and Response.** The DON does not tolerate sexual assault and has implemented multiple actions to reduce assaults and respond to sexual assault allegations. The Sexual Assault Prevention and Response Office (SAPRO) was created to implement policies, enhance awareness, and conduct training across the DON, and directly advise the Secretary of the Navy on sexual assault matters. CNO and CMC stressed the seriousness of sexual assault through various leadership messages. Additionally, hotlines were established to report sexual assault. All DON personnel are required to complete sexual assault training and, in FY 2018, multiple MAUs tested completion rates of SAPRO's training through inspection of training records. MAUs that conducted testing had training completion rates within the accepted tolerance and expect further training completion by the due date of 30 September 2018.

ICO MAU Initiatives

In addition to the above testing performed across the DON, MAUs performed testing on several other control areas in the FY 2018 cycle. Examples include:

- **Data Protection:** In today's environment of constant threats and access to sensitive information, it is critical that DON data is protected and secure. Data spillage and leakage are concerns and can be detrimental to the DON mission, readiness, and lethality.

Numerous MAUs across the DON tested their compliance with Department of Defense (DoD), DON, and unit policies, completion of required training, and access control to data. As each MAU is unique, specific testing areas and testing methodology were determined by the MAUs to assess their individual risk areas. While the majority of tests passed, continued action needs to be taken to further secure data and restrict data access to authorized individuals, as indicated by the DON Data Protection MW currently in remediation.

- **Base, Station, and Installation Physical Security:** Several MAUs identified security controls as a major internal control testing focus area. Areas tested this cycle, without any deficiencies identified, included:
 - Compliance with policies and procedures: ONR and OJAG validated that established written policies and procedures were in place. ONR confirmed compliance with established standard operating procedures (SOP) and that SOPs were updated as necessary. ONR also provided periodic and annual in-person training. OJAG validated execution of the revised Naval Legal Service Command Courthouse Security instruction.
 - Physical security personnel: The DON provides awareness of security postures and emergency information to minimize the potential for warfighter mission failure and loss of life and property. The DON currently conducts annual security and emergency drills such as Citadel Shield, hurricane exercises, and flu epidemic per requirements.

- Supervisors receive automatic notification if personnel are delinquent.
- Access controls to physical locations: OSBP tested that access doors could only be unlocked by authorized individuals using a properly coded DoD Common Access Card (CAC). OSBP conducted access point checks weekly by attempting entry without a CAC, validated monthly that unauthorized individuals are verified before granting access, and documented the results in a signed log.
 - Check-out process: NAVAUDSVC currently has a comprehensive check-out process in place that includes a check-out sheet. The check-out sheet covers many broad categories to ensure departing employees obtain a signature or initials from their supervisor, Resources Management division, information technology branch, training branch, NAVAUDSVC legal counsel, and the Workforce Management and Employee Resources Division.
 - Contractor clearances: The DON Assistant for Administration (DON/AA) validates that contractor personnel's Facility Security Officer submits a visit request and contractors possess an appropriate clearance before reporting to duty. The DON Security Coordinator checks the Joint Personnel Adjudication System (JPAS) to ensure a visit request for the contractor has been submitted. Reverification is conducted every six months, or whenever an incident report is filed on the contractor due to security concerns, through the Trusted Associate Sponsorship System (TASS) to ensure the contractor is in good security standing.
- **Managers' Internal Control Program:** MICP tests compliance with Secretary of the Navy Instruction (SECNAVINST) 5200.35 series, such as existence of MICP Plans, MICP coordinator appointment letters, and completion of certification statements and its components. The DON MICP conducted testing for its reporting entities (i.e., MAUs and budget submitting offices) by requesting and collecting required key supporting documents to comply with the instruction at the beginning of FY 2018. The DON MICP Office worked with noncompliant organizations to develop missing documents.

As the DON MICP continued to mature, MAUs assessed the MICP within their organizations and at their lower-echelon assessable units. Assessed MAUs determined that the MICP complied with the SECNAVINST within their Echelon I organization. However, lower echelons require additional effort to bring them into compliance with the SECNAVINST.

Internal Control Evaluation: ICOFR

Department of the Navy (DON) management evaluated the system of financial reporting internal controls in accordance with the guidelines identified earlier. The results indicate the DON's system of internal controls, in effect as of the date of this memorandum, taken as a whole, does not comply with the requirement to provide reasonable assurance that the objectives mentioned earlier were achieved due to the 20 material weaknesses (MW) reported in the "Financial Reporting Material Weaknesses" section.

The DON's assessment of Internal Control over Financial Reporting (ICOFR) includes the following 19 budget submitting offices (BSO) as assessable units (AU):

- Navy Bureau of Medicine and Surgery (BUMED);
- Bureau of Navy Personnel (BUPERS);
- Commander, Navy Installations Command (CNIC);
- Department of the Navy Assistant for Administration (DON/AA);
- Field Support Activity (FSA);
- Naval Air Systems Command (NAVAIR);
- Naval Facilities Engineering Command (NAVFAC);
- Naval Sea Systems Command (NAVSEA);
- Naval Supply Systems Command (NAVSUP);
- Naval Intelligence Activity (NIA);
- Navy Systems Management Activity (NSMA)³;
- Office of Naval Research (ONR);
- Commander, U.S. Pacific Fleet (PACFLT);
- Commander, Navy Reserve Force (RESFOR);
- Space and Naval Warfare Systems Command (SPAWAR);
- Naval Special Warfare Command (SPECWAR)⁴;
- Strategic Systems Programs (SSP);
- U.S. Fleet Forces Command (FFC); and
- U.S. Marine Corps (USMC).

In fiscal year (FY) 2018, the DON continued to build upon prior year progress in improving ICOFR, maintaining focus on its audit objectives and on a robust internal control program critical to mission success and program sustainability. Internal controls are a cornerstone of the DON's audit remediation program and a key input to its many audit-related initiatives.

The DON's 19 BSOs define the AUs within their organization based on those most critical to the BSO's mission and strategic objectives. The BSOs executed their internal control programs, which include risk assessment, internal control evaluation, deficiency identification and subsequent corrective actions, and reporting results in their certification statement. These certification statements and their supporting enclosures are the primary source documents for the Secretary of the

³ NSMA provides test results to the classified annex and is not included in the unclassified DON Statement of Assurance (SOA).

⁴ SPECWAR reports ICOFR and ICOFS through the United States Special Operations Command SOA and is not required to report results to the DON at this time.

Navy's determination that controls are not in place to provide reasonable assurance over the effectiveness of the DON's financial operations and processes.

The DON continues to maintain and enhance its standard business processes through its Business Process Improvement (BPI) efforts. The Navy's independent public accounting firm provided multiple Notices of Findings and Recommendations (NFR) associated with a lack of complete and accurate process cycle memoranda (PCM) for the largest asset segments. The BPI team, working with affected BSOs, established an enhanced format and robust schedule to document the DON's asset segment end-to-end lifecycle, from procurement to disposal. This included hands-on training with PCM documenters that helped them better identify specific key controls and document processes consistently across the DON. The BPI team is also using the same framework to enhance its existing PCMs to ensure their form and content meet the auditor's expectations and enhance internal control identification and testing efforts. Further, the DON worked with its service providers to ensure its business process documentation stays in alignment with the services they provide; documentation continues to be updated to reflect the alignment of Navy control points to Complementary User Entity Controls (CUEC).

The BPI team maintains the DON process documentation repository and change control process. They also conduct monthly change control board meetings with BSOs designed to obtain concurrence on recommended process changes identified by various DON stakeholders. The BPI team is expanding the scope of its current change control process to ensure PCM documentation is adequately maintained and functional owners remain engaged, as the DON continually matures documentation and standardizes processes. Internal controls identified in the process documents and compliance matrices are being consolidated into a control catalog to further facilitate internal control identification and testing efforts.

ICOFR DON-Wide Initiatives

The following are highlights of ICOFR testing and results for the FY 2018 cycle:

- **Required BSO Control Point Testing:** During the FY 2018 testing cycle, all BSOs were required to test specified control points in three business areas:
 - Civilian Pay (CIVPAY);
 - Contract/Vendor Pay (CVP); and
 - Fund Receipt and Distribution (FRD).

FY 2018 represents the first year of required BSO ICOFR testing. Process flows and compliance matrices were used as the starting point to identify and test nine specific controls. The test procedures and execution varied by BSO, resulting in the DON being unable to draw conclusions on DON-wide effectiveness of these control points. In FY 2019, the DON will provide BSOs with expanded, step-by-step test scripts, more detailed guidance, and additional training to enable more representative test outcomes.

Of particular note, DON/AA conducted CIVPAY CP04 testing across the DON's Secretariat organizations. Although DON/AA cannot provide certainty regarding test results, FY 2018 testing identified issues with their Time and Attendance approval process; DON/AA is instituting new policy and training to improve controls over this process.

- **Key Control Objectives:** In addition to the required BSO control point testing, the Office of Financial Operations (FMO) conducted a testing pilot for other control areas. The pilot was split into four phases, with each phase focusing on specific mission and objective area(s):
 - **Pilot Phase 1:** Financial Statement Compilation and Reporting;
 - **Pilot Phase 2:** Transportation of People and CIVPAY;
 - **Pilot Phase 3:** Military Pay; and
 - **Pilot Phase 4:** Transportation of Things and CVP.

FMO developed test plans and requested that the eight participating BSOs and one sub-organization provide key supporting documentation required for testing.

In FY 2019, FMO will assess the pilot results, with the goal of implementing a more comprehensive testing program covering additional areas and BSOs. Additionally, BSOs will review the key findings and recommendations and begin developing corrective action plans for any improvement areas.

ICOFR BSO Initiatives

BSOs implemented a variety of test plans and methodologies tailored to controls being tested. Test plans identified relevant stakeholders, documentation, or transactions to be reviewed, and the mechanisms by which testing would occur. Findings where control gaps exist include an inability to locate required documentation, a lack of established policies and procedures to document processes, insufficient maintenance and retention of documents, and untimely approval of financial transactions recorded into the accounting system.

Additional examples of testing initiatives being performed at BSOs include:

- **Reimbursable Work Order (RWO):** Even though an RWO MW exists, multiple BSOs performed RWO testing for both grantor and performer processes.
 - Grantor testing focused on ensuring the goods and/or services being procured and the period of performance are consistent with limitations of the assigned Treasury account number; and validating an authorized individual confirms the funding document information.
 - Performer testing focused on verifying that the Authorizing Official was performing adequate reviews to ensure the Performance Work Statement could be delivered as described, and the orders were accepted properly.

These BSOs are developing monthly/quarterly receipt and acceptance billing processes and supplementary desk guides to enhance knowledge across the processes.

- **Operating Materials and Supplies (OM&S) Inventory:** Several BSOs developed and executed test plans to validate existence and completeness (E&C) of their OM&S inventory processes. Quarterly and annual tests included validation of policies and procedures supporting the recording and reconciliation of inventory transactions and related journal vouchers (JV); validation of physical inventory and evidence of the commander's dated

signature; and validation of reconciliation of physical inventory count sheets to the asset record.

- **Asset Management:** The DON is executing multiple corrective actions in various asset areas to support material weakness remediation and to establish a sustainable environment across all BSOs. One of those corrective actions is developing PCM to document and institutionalize consistent asset management processes and procedures. Examples of testing performed in FY 2018 to support these efforts include:
 - **Real Property** – Statistical samples were gathered to ensure supporting documentation was available to prove E&C, validate segregation of duties, and confirm proper authorization. Testing samples were also gathered to validate compliance with DD Form 1354.
 - **Working Capital Fund Inventory** – Statistical samples were gathered to ensure supporting documentation was available to prove E&C. Periodic testing was conducted for receipt, entry into the Accountable Property System of Record (APSR), physical inventory, and floor-to-book inventory. Based on 59 site inventories, the 90% pass rate for floor-to-book inventory was below the 95% target, which led to continued efforts at the BSOs to execute corrective actions.
 - **General Equipment (GE)** – BSOs with GE (other than Remainder) were required to perform a 100% inventory. BSOs conducted quarterly or semi-annual testing for receipt and acceptance documentation, APSR entries, disposition documentation, and disposition APSR entries. While the DON can support E&C of these assets, additional corrective actions were necessary to support the completion of an inventory in a more timely and complete manner (e.g., updating policy and procedures for conducting an inventory and providing supporting documentation).
- **Field Level Journal Vouchers (FLJV):** A majority of BSOs performed quarterly reviews of sample JV packages and supporting documentation to test the control set in accordance with DON FMO FLJV policy. This on-going effort is a key focus of the independent public accountant and will take time to monitor progress, validate test efforts, and remediate the related deficiencies.

Internal Control Evaluation: ICOFS

Department of the Navy (DON) management evaluated Internal Controls over Financial Systems (ICOFS) in accordance with the guidelines identified above. The results indicate the DON's system of internal control, in effect as of the date of this memorandum, taken as a whole, does not comply with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved due to the five nonconformances reported in the "Financial Management Systems Material Weaknesses/ Nonconformances" section. The DON's assessment of ICOFS includes the 19 budget submitting offices (BSO) as assessable units listed in the "Internal Control Evaluation: ICOFR" section.

The DON made considerable progress during the fiscal year (FY) 2018 reporting period toward improving ICOFS. In conjunction with the Office of the Secretary of Defense and service providers, the DON continues to assess relevant financial system security controls. These include security controls applied to systems during the Risk Management Framework (RMF) process to operate within the Navy IT environment; and to ensure compliance with the Office of Management and Budget (OMB) Circular No. A-123, Federal Managers' Financial Integrity Act (FMFIA) of 1982, Federal Financial Management Improvement Act (FFMIA) of 1996, Financial Improvement and Audit Readiness guidance, and National Institute of Standards and Technology (NIST) standards. As ICOFS is the foundation of auditability for financially relevant systems, the following efforts are underway.

ICOFS DON-Wide Initiatives

The DON maintains two entity-wide ICOFS initiatives, specifically providing an information technology (IT) control governance framework in the form of publishing Enterprise IT Control Standards and maintaining an inventory of financially relevant IT systems and their financial significance. Below are the highlights and focus areas for the FY 2018 cycle:

- **Financial Management (FM) Overlay:** To improve the financially-relevant IT control system environment, the DON developed a FM Overlay to complement the Navy's implementation of RMF for authorization of systems to operate within the Navy IT environment. The FM Overlay aids in developing risk management strategies to address specific protection needs for systems with financial impact within defined risk tolerances identified by each respective system owner. The implementation of the FM Overlay supports the RMF Transition Initiative and encompasses additional security requirements applicable to assessing FM information systems.

The FM Overlays are specific to the following critical control families:

- Access Control;
- Audit and Accountability;
- Configuration Management; and
- Identification and Authentication.

In FY 2018, additional IT control standards were added as an enhancement to the DON Enterprise IT Control Standards guidebooks. These 18 guidebooks provide supplemental audit-based financial statement guidance for the control families identified in NIST SP 800-53, Revision 4 (Rev. 4), and are currently used to guide remediation of IT Notice of Findings

and Recommendations (NFR) deficiencies. System owners will utilize this entity-wide guidance in conjunction with the FM Overlay to standardize security practices across the DON, to improve its security posture across the IT control environment, and to comply with federal laws and regulations.

- **Enterprise Continuous Monitoring Program (ECMP):** The ECMP focuses on assessing the IT control posture of its financially relevant systems. Leveraging the DON's Enterprise IT Control Standards, the ECMP team performed assessments on DON financially relevant systems to prepare for transition to RMF and future financial statement audits. In FY 2018, the DON ECMP team assessed Naval Supply Systems Command's (NAVSUP) Standard Procurement System (SPS) against the DON Enterprise IT Control Standards control families of Audit and Accountability, Access Control, and Configuration Management. The DON ECMP team tested 150 controls, which resulted in the creation of additional CAPs for the system. These CAPs will be the backbone in strengthening NAVSUP SPS's internal control environment as part of the RMF process.

Budget Submitting Office/System Owner Initiatives

BSO and system owners undergo several assessments, validation, and remediation activities for audit response and internal control compliance. Specifically, FY 2018 efforts focused on IT NFR remediation and validation, systems transition to the RMF, Enterprise Continuous Monitoring Programs, and Blue Book assessments. Below is the summary for the FY 2018 cycle:

- **IT NFR Remediation and Validation:** The DON received a total of 254 NFRs as a result of the independent public accountant (IPA) examinations, as of July 2018. The DON works with system stakeholders to understand and identify the root cause of the deficiencies, as well as provide guidance on various NIST and DON IT Control Standards, in the development of corrective action plans (CAP) for remediation. DON-wide CAPs are continuously monitored to address deficiency remediation, where the root cause effects several systems within the DON IT environment. IT NFR validation provides reasonable assurance that controls designed by system stakeholders address the deficiencies identified by the IPA. The DON has validated 80 IT NFRs, as of July 2018. Additionally, 74 IT NFRs were closed by the IPA in FY 2016.
- **Financial Management Improvements to RMF:** The system owners are responsible for applying the 90 FM Overlay controls to become authorized. In FY 2018, Naval Air Systems Command's (NAVAIR) Aviation Logistics Environment Data Warehouse and Decision Analysis Support (ALE DWDAS) system applied the FM Overlay and achieved authorization to operate within Navy's IT environment. At the same time, the FM Overlay was updated and is available on the Enterprise Mission Assurance Support System (eMASS). System owners for more than 32 DON financially relevant systems continue to work on their RMF transition process to become fully authorized.
- **Blue Book Assessments:** During FY 2018, the DON performed Blue Book assessments for several financially relevant systems documented below. The assessment team reviewed the applications' compliance against applicable Blue Book requirements and Federal Information System Controls Audit Manual (FISCAM) business process application controls (BPAC). Blue Book contains numerous requirements issued by OMB, Government Accountability

Office, Department of Treasury, and Department of Defense Financial Management Regulations. Findings were issued for financially relevant systems that were not compliant or only partially compliant with one or more Blue Book requirements or BPACs. While additional applications are being assessed, the following DON system assessments were completed by the end of FY 2018:

- Navy Standard Integrated Personnel System (NSIPS);
- Fund Administration and Standardized Document Automation (FASTDATA);
- SeaPort;
- SPS NAVAIR;
- SPS Naval Sea Systems Command (NAVSEA);
- SPS NAVSUP;
- SPS Strategic Systems Programs (SSP);
- SPS Military Sealift Command (MSC);
- SPS Space and Naval Warfare Systems Command (SPAWAR);
- NAVAIR Depot Maintenance System – Time and Attendance (NDMS-TAA);
- Centralized and Integrated Reporting for the Comprehensive Utilities Information Tracking System (CIRCUITS);
- Labor Management Support Information System (LMSIS);
- Internet Navy Facility Assets Data Store (iNFADS);
- Program Budget Information System (PBIS);
- Integrated Technical Item Management & Procurement (ITIMP);
- MSC – Financial Management System (FMS) (abbreviated assessment);
- Standard Labor Data Collection And Distribution Application (SLDCADA);
- Decision Knowledge Programming for Logistics Analysis and Technical Evaluation (DECKPLATE);
- Corrective Maintenance & Logistics System (CMLS);
- Ordnance Information System (OIS); and
- Facilities Information System (FIS).

Service Provider Oversight

The Department of the Navy (DON) provided oversight of third-party shared service providers (SSP) that process, store, and transmit Navy financial data. Oversight is enforced by formal written agreements (e.g., Memoranda of Understanding, Memoranda of Working Agreement, Service Level Agreements, etc.) that document the roles and responsibilities between the DON and its SSPs. Modifications or additional agreements are addressed when identified.

SSPs may provide reasonable assurance regarding the systems, processes, and controls used to support Navy operations through System and Organization Controls (SOC) 1 reports. Annually, Navy obtains SOC 1 reports to review and document potential risks to Internal Control over Financial Reporting (ICOFR) and Internal Controls over Financial Systems (ICOFS). As part of the fiscal year (FY) 2017 review, Navy noted several material weaknesses (MW) relative to systems and processes described in SOC 1 reports and will continue to collaborate with SSPs to ensure MWs have been effectively remediated to prevent future occurrences of process and control failures.

As SOC 1 reporting matures, Navy and its auditor will determine whether reliance can be placed on SOC 1 reports for use in full financial statement audits. To rely on SOC 1 reports, Navy is required to design, implement, and monitor the operating effectiveness of Complementary User Entity Controls (CUEC). As such, general information technology controls (GITC) CUECs are documented in the Navy CUEC Policies and Procedures, which reflect the system components and overall IT controls performed by Navy budget submitting offices (BSO). Navy Business Process Standards (i.e., Process Cycle Memoranda, Process Maps, Data Dictionaries, and Controls Crosswalks) are continuously being updated to reflect the alignment of Navy control points to process-level CUECs. To date, GITC CUECs for logical access and security management have been tested at all applicable BSOs for five third-party SSP systems.

For third-party SSP systems that have not undergone an external audit (i.e., do not receive a SOC 1 report), Navy has developed a monitoring program that utilizes SSP risk control matrices, system security and incident response plans, access control policies, and other relevant documents to assess the adequacy of the systems' control environment. Navy receives and reviews this supporting documentation periodically throughout the fiscal year to ensure SSP operations and controls for non-SOC 1 systems remain effective. Although these systems do not receive a SOC 1 report, CUECs were developed and implemented to ensure that the Navy's controls support the overall system control environment.

Evaluate, Prioritize, and Remediate (EPR) Program

The Evaluate, Prioritize, and Remediate (EPR) program provides centralized program management over DON financial Notice of Findings and Recommendations (NFR) tracking, remediation, and reporting. EPR corrective action plan (CAP) coaches guide senior accountable officials (SAO) and action officers (AO) through corrective action plan (CAP) design and implementation to ensure effective and sustainable remediation. During FY 2018, EPR program processes matured to a stable, standard set of practices that govern all aspects, including auditor coordination and NFR response, SAO assignment, SAO and AO training, CAP design and implementation, CAP validation, and CAP reporting. The EPR program also improved or implemented the following procedures:

- Enhanced the NFR response process to fully engage end-to-end business process owners across the DON in assessing the factual accuracy, specificity, and actionability of NFRs;
- Continues to develop and test a robust online deficiency and CAP development and tracking tool to enable greater visibility and coordination of deficiency remediation across the DON;
- Progressively rolling out the NFR remediation status reporting methodology and tools across the DON, resulting in greater consistency and comprehension among DON leadership and stakeholders in all reporting forums; and
- Facilitates leadership updates to three governance committees monthly, including the Audit Committee, the Senior Management Council (SMC), and the Senior Assessment Team (SAT). EPR also coordinates the DON response to monthly Department of Defense data calls on NFR remediation progress.

Validation

Before an MW or significant deficiency (SD) is closed or downgraded by the SAT and SMC, the SAO must provide evidentiary artifacts that demonstrate remediation has been accomplished to the DON MICP Office and EPR Program, who perform a preliminary review. The MW or SD may then be reviewed by either the DON's Impartial Verification and Validation organization, the Naval Audit Service, or an independent public accountant for final validation, depending on the severity of the deficiency. The closure or downgrade recommendation is then discussed by the SAT and SMC, who assess this information and determine whether further evidence is required to prove the assertion, or whether the deficiency can be closed or downgraded.

Antideficiency Act Violations

The DON had no Antideficiency Act (ADA) violations for FY 2018 and no incomplete corrective actions from prior year ADA violations to report.

Overall Assessment of Internal Control

Overall Assessment of a System of Internal Control		
Internal Control Evaluation	Designed & Implemented (Yes/No)	Operating Effectively (Yes/No)
Control Environment	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<i>Not Assessed</i>
Risk Assessment	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Control Activities	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Information and Communication	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<i>Not Assessed</i>
Monitoring	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<i>Not Assessed</i>
Are all components above operating together in an integrated manner?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Overall Evaluation of a System of Internal Control	
Overall Evaluation	Operating Effectively (Yes/No)
Is the overall system of internal control effective?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Basis for Assessment

- Control Environment:** The Department of the Navy (DON) implemented a governance process designed to strengthen tone-at-the-top and management commitment. Guidance, training, and other communications are building a strong foundation for the Managers' Internal Control Program (MICP) community and stakeholders across the organization. The DON conducted entity-level controls (ELC) tests of design in fiscal year (FY) 2018, focusing on the control environment ELCs documented in FY 2017. The DON will conduct ELC tests of operating effectiveness in FY 2019.
- Risk Assessment:** The DON executed a risk assessment across the entire organization, focusing on 28 mission/objective areas spread out across financial reporting, financial systems, and operations. Additionally, the SMC identified the top risks for their respective organizations, which were subsequently included in their risk assessments. While this process has been designed and implemented, it will not be considered to be operating effectively until all major assessable units (MAU) and budget submitting offices (BSO) are performing a full scope risk assessment. The DON will continue to enhance the risk assessment and testing requirements scope through FY 2019.
- Control Activities:** The DON recognizes the identification, execution, and assessment of control activities require significant improvement, as demonstrated by the DON's portfolio of MWs. End-to-end process owners were assigned in FY 2018 to lead the DON's functional business process areas and are responsible for policy development, implementation, and compliance. Additionally, the DON conducted limited tests of control effectiveness in FY 2018, with inconclusive results.
- Information and Communication:** The DON is providing communication at all levels from the Assistant Secretaries of the Navy in the Audit Committee to the Senior Executive Service members and flag officers in the Senior Management Council (SMC) and Senior Assessment

Team (SAT) meetings to the MICP coordinators through monthly meetings, guidance, training, and outreach. The DON continues to mature its development and use of quality information to achieve DON objectives. The DON conducted Information and Communication ELC tests of design in FY 2018 and will continue to build upon the test foundations in FY 2019.

- **Monitoring:** The DON has designed and implemented a governance framework for monitoring key business and IT system initiatives through the Audit Committee, SMC, SAT, and Financial Information Systems Working Group. Additionally, the DON has designed internal controls over key financial reporting and budgeting processes to monitor compliance with key regulatory and financial requirements. The DON performed Monitoring ELC tests of design in FY 2018 and will perform ELC tests of operating effectiveness and analyze results in FY 2019.
- **Overall Evaluation:** As evidenced by the portfolio of MWs, there is significant remediation required across the DON; however, the overall system of controls will improve as the DON MICP continues to mature. The DON is confident that the continued improvement in each of the internal control elements will result in an overall system of internal controls that is operating effectively, other than in those areas with significant inherent risk or corrective actions that have external dependencies.

Significant Managers' Internal Control Program Accomplishments

Process Improvement

Internal Control Reporting Category: Acquisition (Internal Controls over Operations)

Description of the Issue: Program Executive Office (PEO) Command, Control, Communications, Computers, and Intelligence (C4I) deploys the principles of Better Buying Power and Continuous Process Improvement (CPI) to get the most out of every dollar to accelerate the delivery of critical capabilities to DON warfighters. This is important in the current environment of funding shortfalls when funds are needed to procure equipment and fund additional installations.

Accomplishment: PEO C4I maintained a formal process for identification and prioritization of CPI projects, project monitoring, and validation of realized financial benefits. All PEO C4I CPI projects, training certifications, and validated financial benefits were centrally managed in the PEO C4I CPI Tracker system. PEO C4I also oversaw the training and maintenance of credentials for 43 active Green Belts, 23 of whom are certified. Additionally, there are eight active Black Belts, seven of whom are certified.

In fiscal year (FY) 2017, PEO C4I realized \$148 million in realized financial benefits through the completion of 46 CPI, or "Should Cost", projects. Financial benefits were utilized in a number of ways to directly benefit the warfighter including purchase of additional systems to support installations, restoring funds to budget-impacted programs, and reprogramming funds to address unfunded requirements.

In FY 2018, PEO C4I has realized \$184.4 million of net financial benefits, as of June 2018.

Examples of FY 2018 projects include:

- Consolidation of requirements for cryptographic equipment in the Information Assurance and Cyber Security Program Office;
- Increased production efficiencies by the Battlespace Awareness and Information Operations Program Office Ships Signal Exploitation Equipment (SSEE) Modifications team by moving production of primary SSEE modification components from three disparate sources to a single contractor. The assembly, integration, and testing processes are streamlined when most of the complex system components are produced under the same physical roof and management structure; and
- Helped increase the efficiency and accuracy of the critical Risk Management Framework processes for most of the Navy's communication systems, including ship and shore platforms. Improvements included benchmarking best practices and implementing process metrics, increasing first-pass yield requests for Authority to Operate from 38 to 68 percent in the first four months of implementation, and reducing the average time to process requests from 12 months to 10 months.

Clearing Unmatched Collections

Internal Control Reporting Category: Order-to-Cash

Description of Issue: Collection transactions were failing to process correctly due to Defense Daily Expenditure File (DDEF) logic, which only matched a collection transaction to the bill if both occurred in the same calendar year. The count of unmatched transactions due to the DDEF logic had grown to 11,994 transactions, many of which were aged from 2012.

Accomplishment: Naval Supply Systems Command (NAVSUP) N81 worked with NAVSUP Business Systems Center to prioritize Quantity of Components Installed (QCI) 6668 – Unmatched Collections, test, and implement the resolution. In February 2018, QCI 6668 was implemented in the production environment and NAVSUP N81 cleared 11,864 of the 11,994 transactions, or 98.92% of the total unmatched collections with a dollar value of \$48 million.

Field Level Journal Voucher (FLJV) Automation and Reduction

Internal Control Reporting Category: Budget-to-Report

Description of Issue: FLJVs are manually recorded throughout the DON, which created a series of open risks including the risk of incorrect data entry, unauthorized data entry based on the dollar value of journal vouchers (JV) and improper approval of JVs.

Accomplishment: To create a consistent policy regarding JVs, the DON released the “Department of the Navy (DON) Policy for Recording Business Entries Including Journal Vouchers Update” on 19 October 2017. The policy provided updated requirements for classifying, documenting, and approving JVs that pose the greatest risk to producing reliable and accurate DON financial statements and reports. The DON also released the accompanying Implementation Guidance in January 2018 to provide budget submitting offices (BSO) with clarification on implementing the DON JV policy.

In FY 2018, many BSOs took action to implement the DON JV policy and reduce, eliminate, and automate FLJVs. Examples of implemented policy include:

- Military Sealift Command (MSC) automated the Annual Operating Budget (AOB)/Annual Cost Authority (ACA) and new orders FLJV process in the MSC Financial Management System (MSC-FMS) accounting system by switching to the Oracle Federal Administration module to automate journal postings. The Oracle Federal Administration Module allows transactions to automatically transfer to the general ledger (GL) without the need for an additional manual journal entry, while also maintaining the budget authority during fiscal year budget execution. In conjunction with the deployment of the Oracle Federal Administration Module, a total of 35 annual FLJVs totaling \$9.8 billion were eliminated. This resulted in a significant amount of time savings that was previously spent creating and validating manual journal vouchers, provided for a reduction of human error caused by manually posting journal vouchers, and further assisted with the completeness and accuracy of FLJVs posted to the GL from budgetary sub-accounts.
- Leveraging the Naval Sea Systems Command FLJV tool, Commander, U.S. Pacific Fleet developed and implemented an online FLJV tool for inputting and processing FLJVs, while serving as a repository for the form and supporting documentation. Logic, data relationships, and checks and balances are built into the FLJV form to ensure fields are populated with valid and accurate data, identify separation of duty conflicts, and alert the user if debits and credits do not match or if there is missing data. The implementation of the tool automated the population of the FLJV log, minimized users’ time and errors by auto-populating and filtering fields, and created a FLJV workflow.
- Strategic Systems Program consolidated summary-level month-end JV transactions from 21 JV transactions to three month-end JVs, thereby reducing the total JVs created each month to six transactions.

Process to Improve Efficiency of Expenditures (PIEE)

Internal Control Reporting Category: Budget-to-Report

Description of Issue: Since FY 2013, the DON has returned over \$12 billion to the Treasury. The amount returned has increased year-over-year, from \$1.8 billion in FY 2013 to \$2.9 billion in FY 2017. This represents a significant lost opportunity to use resources effectively. Continuously returning money to the Treasury does not represent effective stewardship in keeping with Office of Management and Budget directives, Secretary of Defense guidance, and Secretary of the Navy priorities for effective processes. Over-obligating appropriations hinders an effective budgeting and planning process.

Accomplishment: The DON managed an exercise requiring each BSO to review any expired unobligated funds, deobligated funds, or unliquidated obligations from FYs 2007-2017 and provide reasons why they were not expended efficiently. This has led to increased awareness and oversight of contract performance by BSOs. The DON has allocated fewer dollars to efforts, increased the specificity of requirements, reduced the initial amount of funding on contracts, and identified areas that consistently deobligate for process improvement to avoid future deobligations. Overall, the DON recouped \$3 billion in savings over the Future Years Defense Program (FYDP). Through these efforts, the DON has developed, and is incrementally implementing, 26 initiatives to improve overall obligation performance. The long-term reward for this reform effort is billions of dollars in increased DON buying power which will result in increased force readiness and lethality.

Material Weaknesses and Corrective Action Plans

Operational Material Weaknesses

The following table lists the material weaknesses (MW) in Internal Controls over Operations (ICO) and incorporates changes from the weaknesses reported in the Fiscal Year (FY) 2017 Department of the Navy (DON) Statement of Assurance (SOA).

Effectiveness of Internal Controls over Operations (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
Reporting Category	FY 2018 Beginning Balance	New	Resolved	Reassessed	FY 2018 Ending Balance
Comptroller and Resource Management	1	-	-	-	1
Contract Administration	1	-	-	-	1
Security	1	-	-	-	1
Manufacturing, Maintenance, and Repair	1	-	-	-	1
Personnel and Organizational Management	1	1	-	-	2
Force Readiness	-	1	-	-	1
Information Technology	-	1	-	-	1
Multiple Reporting Categories	-	1	-	-	1
Total ICO Material Weaknesses	5	4	-	-	9

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2017 Targeted Correction Date	Revised Targeted Correction Date	Page #
Manufacturing, Maintenance, and Repair	Depot Level Maintenance Budgeting	FY 2016	Q4 FY 2020	Q4 FY 2020	27
Personnel and Organizational Management	Military Pay and Personnel	FY 2016	Q1 FY 2023	Q1 FY 2023	31
Comptroller and Resource Management	DON Oversight and Management of Improper Payments	FY 2015	Q3 FY 2018	Q1 FY 2019	33
Contract Administration	Execution of Husbanding Contracts – Husbanding Service Providers	FY 2016	Q2 FY 2019	Q2 FY 2019	35
Security	Data Protection	FY 2017	Q4 FY 2018	Q1 FY 2020	36

Uncorrected Material Weaknesses Identified During the Period					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2017 Targeted Correction Date	Revised Targeted Correction Date	Page #
Force Readiness	Surface Force Incidents	FY 2018	N/A	Q4 FY 2019	37
Information Technology	DON has not implemented top-down controls over its complex business IT environment and does not have an enterprise-wide strategy for managing its financial management systems.	FY 2018	N/A	Q4 FY 2020	38
Multiple	Oversight of Third Parties Managing Assets	FY 2018	N/A	Q3 FY 2021	40
Personnel and Organizational Management	Submission of Criminal Subject Fingerprint Cards and Reporting Disposition of Criminal Charges	FY 2018	N/A	Q3 FY 2020	41

Uncorrected Material Weaknesses Identified During Prior Periods

Title of Material Weakness	
Depot Level Maintenance Budgeting (ICO-1-MW)	
Description of Material Weakness	
<p>Ship Depot Maintenance (SDM): Multiple audits and studies identified a wide range of control issues that cumulatively create MWs in SDM. Policies for defining, costing, and executing maintenance all require improvement to correctly predict both cost and duration of depot maintenance.</p> <p>Navy has over-executed the enacted SDM budget (Budget Line Item 1B4B) every year for seven consecutive years by a total of \$5.7B, including \$629M in fiscal year (FY) 2016, requiring annual reprogramming or supplemental funding requests to Congress. This over-execution of funding has been accompanied by longer than expected depot maintenance durations, increased overhead costs, and reduced operational availability.</p> <p>Aircraft Depot Maintenance (ADM): Multiple audits and studies identified a wide range of control issues that cumulatively create material weaknesses (MW) in ADM. Policies for defining, costing, and executing maintenance all require improvement to correctly predict both cost and duration of depot maintenance.</p> <p>FY 2017 and prior year losses have been incurred due to unplanned increases in maintenance costs. Internal reviews have identified planned throughput as exceeding available capacity and deficiencies in Workload Standards (WLS) that do not accurately capture the required amount of repair.</p>	
Internal Control Reporting Category	
Manufacturing, Maintenance, and Repair	
Targeted Correction Date	
Ship Depot Maintenance: Q4 FY 2020 Aviation Depot Maintenance: Q2 FY 2019	
CAP Milestones	Status
Ship Depot Maintenance	
Identify Obstacles to Execution Performance. The Naval Sea Systems Command (NAVSEA) completed an Execution Summit to identify and address obstacles to improve delivery of ships and submarines in September 2017. Subsequently, Navy identified a range of efforts to improve processes to facilitate on-time performance. All major assessable units associated with the SDM MW attended this summit to provide input to changes.	Completed

<p>Identify variance between Execution Year Guidance (EYG) to President's Budget (PB) and develop mitigations.</p> <p>The Office of the Chief of Naval Operations (OPNAV), with the assistance of NAVSEA, will identify differentials in NAVSEA EYG relative to PB, and the basis of the differences. Fleet Forces Command (FFC) and Commander, U.S. Pacific Fleet (PACFLT) will identify intended mitigation strategies for presentation to the Ship Maintenance Executive Council (SMEC)/Fleet Commanders' Readiness Council (FCRC).</p> <p>Fleets, OPNAV, and NAVSEA will review the causes for growth to identify necessary refinements to the Planning, Programming, and Budgeting process or execution performance.</p>	Completed
<p>Integrate Depot Maintenance in Assessable Units Managers' Internal Control Program (MICP).</p> <p>Stakeholder assessable units (FFC, PACFLT, NAVSEA) will ensure depot maintenance considerations are incorporated into their local MICP and included in their annual certification statement submission to the Chief of Naval Operations (CNO).</p>	Completed
<p>Establish President's Budget as the baseline for execution year variance tracking.</p> <p>Multiple studies have identified disconnects between the work load agreement/execution year guidance used by the fleets to manage public and private SDM from the budget provided to Congress. Office of Budget (FMB) has revised Office of the Chief of Naval Operations Instruction (OPNAVINST) 7130.8, "Guidance for the Execution of Funds for Ship Maintenance," to direct the use of the OP-30S Ship Depot Maintenance Program exhibits provided in support of the PB (e.g., PB18 for FY 2018 inductions) as the baseline for execution year variance tracking. All changes will be communicated by the BSOs as changes from the OP-30S baseline and documented within variance tracking tools as directed in the revised OPNAVINST 7130.8.</p>	Completed
<p>Conduct Senior Leader Quarterly Execution Reviews.</p> <p>The SMEC consisting of the Assistant Secretary of the Navy (Financial Management and Comptroller) and Assistant Secretary of the Navy (Research, Development, and Acquisition) as co-chairs and senior flag officers, including CNO, Vice Chief of Naval Operations, NAVSEA, PACFLT, and FFC, met quarterly to review execution of ship maintenance. Three meetings occurred and promoted alignment across stakeholders (i.e., assessable units for this weakness) and resulted in substantial energy to develop solutions for ship maintenance improvement. Responsibility for continuing oversight of ship maintenance has transitioned to FCRC oversight, with involvement from appropriate Secretary of the Navy leadership.</p>	Q1 FY 2019

<p>Improve Planning to Programming Accuracy.</p> <p>Studies conducted during FY 2016 and FY 2017 identified that input parameters used in the development of SDM requirements are outdated or inaccurate to actual performance, specifically notional workloads for CNO availabilities and Programming Risk Factors. In February 2017, NAVSEA hosted a planning summit to determine causes and corrective actions for these inaccuracies. NAVSEA committed to update notional work cost via technical foundation papers and complete a review for developing programming factors used to adjust notional workload to the Projected End Cost.</p> <p>Based on current progress, improved planning is anticipated to be completed and implemented in association with POM20/FY 2020 budget development. Analysis of the impact of these improved planning factors will not be fully accomplished until the completion of work initiated in FY 2020. Preliminary assessments will be conducted in FYs 2018 and 2019 based on prior year execution.</p>	Q4 FY 2020
Aviation Depot Maintenance (ADM)	
<p>Established PB as the baseline for execution year variance tracking.</p> <p>ADM utilizes the PB-61 Depot Level Maintenance exhibit to identify Transportation Management System, repair cost estimate, and repair source. This exhibit is used as a baseline for execution year variance tracking for ADM.</p>	Completed
<p>Integrated Depot Maintenance in assessable units' MICP.</p> <p>Naval Air Systems Command (NAVAIR) will ensure depot maintenance considerations are incorporated into the local MICP and included in their annual certification statement submission to the office of the CNO.</p>	Completed
<p>Conducted Senior Leader Quarterly Execution Reviews.</p> <p>An Aviation Readiness Executive Council will be established by Q1 FY 2018 to address challenges with aviation readiness, including ADM. This function may be assumed by the FCRC and/or Integrated Maintenance Review Board at a later date.</p>	Completed
<p>Semiannual workload planning reviews.</p> <p>Since 2015, Commander, Fleet Readiness Centers (COMFRC), NAVAIR, and Commander, Naval Air Force Atlantic have initiated semiannual workload planning reviews to improve the accuracy of planned requirements for the upcoming execution year plus one. This also aligns COMFRC resource planning to the anticipated fleet demand. ADM stakeholders will expand scope of reviews to include execution year plus two to provide for improved synchronization with planning, programming, and budgeting phases of the Planning, Programming, Budgeting, and Execution process.</p>	Completed

<p>Improve Planning-to-Programming Accuracy.</p> <p>Multiple reviews and deep dives conducted during FY 2016 and FY 2017 identified that input parameters used in the development of ADM requirements are outdated or inaccurate to actual execution performance, specifically quantities of aircraft required vs. execution and WLS. Several initiatives are underway to better align the planned aircraft requirements in the budget with execution and to improve the WLS development process and tracking of execution at the Fleet Readiness Centers.</p>	<p>Q2 FY 2019</p>
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Title of Material Weakness	
Military Pay and Personnel (MILPAY) (ICO-2-MW)	
Description of Material Weakness	
<p>The Navy's Manpower Personnel Training and Education (MPT&E) enterprise needs to meet the future needs of the Fleet and Sailors and to mitigate the threat to the Navy's ability to execute future missions vital to national security. Specifically, MPT&E needs to evolve and overcome the following challenges:</p> <ul style="list-style-type: none"> • An antiquated industrial age service model, including 63 geographically-separated brick and mortar points of entry for Sailors to military Human Resource (HR) services, inconsistent service quality across many locations, limited hours of customer support and lack of visibility of workflow for HR actions. • Lack of timely, searchable, authoritative data, including multiple databases with no application programming interface, data structures that do not reflect analytics needs, and inconsistent analytic capability across the MPT&E enterprise. • Outdated, duplicative, and non-integrated HR and pay systems, including separated personnel and pay capabilities that are not auditable, require many manual workarounds, aging technologies, outdated security, and no automation of HR business and pay functions. • Unsustainable HR workforce and infrastructure supports antiquated manual processes requiring costly "touch labor" and reducing availability for Fleet readiness activities. • Lack of enterprise level data/analytics to address fleet manning and readiness issues. 	
Internal Control Reporting Category	
Personnel and Organization Management	
Targeted Correction Date	
Q1 FY 2023	
CAP Milestones	Status
Chief of Naval Operations (CNO) approved MPT&E operating model.	Completed
Chief of Naval Personnel (CNP) approved MPT&E Transformation Concept of Operations.	Completed
Naval Education and Training Command N3 Street to Fleet organization stand-up completed.	Completed
Single point of entry initial operating capability (IOC) – MyNavy portal launched.	Completed
CNP approval of A- and B-level specifications for future state MPT&E enterprise.	Completed
Talent Acquisition Operations Center Proof of Concept completed.	Completed
Navy Personnel and Pay (NP2) Proof of Concept completed.	Completed
Established an Authoritative Data Environment 1.5 to enable enterprise-level descriptive analytics and reporting capability, which will improve data quality and reporting timing across the MPT&E enterprise.	Completed
Launched MyNavy Career Center (MNCC); Beta includes self-service, inquiry resolution, shared service capabilities, and transactional HR and pay support to Sailors.	Completed
Establish an Application Programming Interface for authoritative Navy Personnel data and tools to enable a predictive analytics capability to support functional level decisions across MPT&E enterprise.	Q3 FY 2019

IOC: MNCC to include a modern telephony system integrated with a modern Customer Relations Management system to enable a modern four-tiered service delivery model.	Q4 FY 2019
Establish a core suite of MPT&E systems, including the implementation of an auditable Commercial off-the-Shelf (COTS) NP2 capability implementing Treasury Direct Deposit. Development of functionality supports operating model capability deployments, eliminates dependency on Defense Joint Military Pay System, and reduces audit risk. The target for NP2 IOC is Q1 FY 2021.	Q1 FY 2021
Design and fully implement a new HR operating model to include the redesign of talent and HR processes to take advantage of the COTS Pers/Pay system and the stand-up of the MNCC.	Q1 FY 2023
External or independent review of the MILPAY deficiency will occur to validate the remediation of the issue. Full operational capability (FOC) determination will be based on successful validation.	Q1 FY 2023

Title of Material Weakness	
DON Oversight and Management of Improper Payments (ICO-3-MW)	
Description of Material Weakness	
<p>The Department of the Navy (DON) does not have an adequate system of internal controls over the management of improper payments, including written policies and procedures, tone-at-the-top, oversight and management, accountability through reporting, training, etc. Failing to identify payment issues associated with agreements/procurements (e.g. contracts, travel orders, etc.), receipt/acceptance of goods and services, and invoices, all of which support the legality and propriety of payments, increases the likelihood that improper payments may go unnoticed. This may result in significant loss of funds if uncollected or unrecognized liabilities for underpayments, and further erodes taxpayer confidence in the stewardship of tax dollars when other external parties identify them (e.g., Department of Defense Inspector General, Government Accountability Office (GAO), etc.).</p>	
Internal Control Reporting Category	
Comptroller and Resource Management (ICO)	
Targeted Correction Date	
Q1 FY 2019	
CAP Milestones	Status
Established reporting requirements in writing. Quarterly reporting was conducted throughout FY 2017 and is scheduled for the foreseeable future.	Completed
Post Payment Review procedures were created and reviewed with stakeholders during training that was conducted between February and March 2017. Continue to update artifacts on an annual basis or as needed.	Completed
Developed and provided training to personnel responsible for conducting post payment reviews and is available for new personnel and as refresher training. Continue to update artifacts on an annual basis or as needed.	Completed
Updated the DON/Defense Finance and Accounting Service (DFAS) memorandum of understanding (MOU) and communicated updates to stakeholders. Continue to update artifacts on an annual basis or as needed.	Completed
Updated guidance to reflect current laws, regulations, and policy on 9 May 2017 and communicated updates to stakeholders. Continue to update artifacts on an annual basis or as needed.	Completed
Identified two additional payment programs, Military Sealift Command Financial Management System (MSC-FMS) and U.S. Marine Corps (USMC) Deployable Disbursing System (USMC-DDS), to review for susceptibility of improper payments as a result of the reconciliation of the universe of systems that certify payments.	Completed
DFAS performed a reconciliation of the universe of systems that certified payments and provided a report on the results. This reconciliation will be re-performed on an annual basis.	Completed
USMC sampling plan for the Windows Integrated Automated Travel System (WinIATS) was developed by a statistician and signed by the Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FO)). Sampling plans for all programs continue to be updated on an annual basis.	Completed

Internal testing of the remediation objectives was conducted prior to validating remediation of the material weakness.	Completed
DASN (FO) was appointed as the DON senior accountable official.	Completed
Prepared packages evidencing the effective remediation of the deficiencies and engaged the Naval Audit Service for review under an Agreed Upon Procedure audit.	Completed
Confirm effectiveness of program governance over Improper Payment reduction efforts by assessing the efficacy and sustainability of Corrective Action Plans targeting key root causes of improper payments.	Q1 FY 2019

Title of Material Weakness	
Husbanding Service Provider (HSP) Contract Execution (ICO-7-MW)	
Description of Material Weakness	
Husbanding Service Provider (HSP) contracts directly support a critical fleet need for ships throughout the world where the DON does not have naval facilities. Maritime Husbanding Support is the provisioning of supplies and services as defined in a performance work statement of the contract in support of U.S. military forces within a port. The DON business process for acquiring husbanding and port services requires clear oversight, coordination, and direction for an all-Navy process that pursues a layered defense philosophy. Naval Audit Service identified deficiencies in the DON business process related to acquiring husbanding and port services, including contract oversight responsibilities of Task Orders (TO), in accordance with acquisition regulations, a lack of separation of responsibilities, and a lack of policy and guidance prescribing oversight.	
Internal Control Reporting Category	
Contract Administration	
Targeted Correction Date	
Q2 FY 2019	
CAP Milestones	Status
Required the use of the Wide Area Work Flow (WAWF) and Invoice, Receipt, Acceptance, and Property Transfer (iRAPT) to process payments through the Defense Finance and Accounting Service (DFAS).	Completed
Transferred responsibility for placing orders for U.S. ships to Fleet Logistics Center contracting offices.	Completed
Responsibility for bill paying moved to Electronic Funds Transfer/DFAS payment offices to take the process off ships.	Completed
Conducted training to improve auditability/acceptance with all Fleets to ensure personnel performing proper receipt and inspection forward receipts to the contracting officer's representative. This training encompassed pipeline schoolhouses, Naval Leadership Ethics Center and Senior Enlisted Academy, Fleet, and pre-deployment training.	Completed
Executed the off-ship bill pay process on all U.S. ships and Military Sealift Command units.	Completed
Mapped all information systems involved in husbanding and port services processes to outline functions, format, and integrity.	Completed
Reviewed off-ship bill pay processes for Financial Improvement and Audit Readiness requirements compliance.	Completed
Implemented OPNAVINST 4400.11, Husbanding Service Provider Program Policy, to enforce compliance with updated HSP processes.	Completed
Implemented an executive dashboard to enforce and track compliance with updated HSP processes, with an emphasis on financial, contracting, and operational requirements. The dashboard synthesizes the health of HSPs and enables leadership to quickly detect and address instances of fraud, waste, and/or abuse.	Completed
Allowed for one year of run time to monitor system health. Key metrics were tracked by the Office of the Chief of Naval Operations on a monthly basis.	Completed
Validation via full audit by Naval Audit Service.	Q2 FY 2019

Title of Material Weakness	
Data Protection (ICO-13-MW)	
Description of Material Weakness	
Similar to the Department of Defense (DoD), inspections, reports, and lessons-learned reveal that the DON also features Department-wide systemic shortfalls in implementing cybersecurity measures to protect its Data Protection environment. The DON's environment features gaps in two cybersecurity areas – user access controls, including Privileged User Authentication and Public Key Infrastructure (PKI), and device hardening and encryption – which have contributed to data protection vulnerabilities. The DON exhibits issues regarding policy compliance with cybersecurity measures, oversight, and accountability.	
Internal Control Reporting Category	
Security, Information Technology (IT)	
Targeted Correction Date	
Q1 FY 2020	
CAP Milestones	Status
Established process to ensure participation in the Cybersecurity Scorecard meetings to provide input, carry out corrective actions as necessary, and assist with broader DoD cybersecurity protection. Mapped service scorecard metrics and efforts back to DON audit findings.	Completed
Reviewed current DON user system access policy, and update as necessary, to include clear guidance on and requirements for privileged user access authorization and credential revocation, user access and control training certification, and user monitoring and oversight. Required timely authorization reviews, spot checks, and focus on documentation and document retention.	Completed
Reviewed current DON acquisition and IT purchase contracts and policy, and updated as necessary to require the adoption of established DON user access controls and encryption and hardening standards.	Completed
Corrective action plan and validation path approved by the Senior Management Council.	Completed
Deployed Windows 10 to Navy/Marine Corps NMCI and OneNet employed BitLocker.	Completed
Review DON policy on privileged user access, and update as necessary to include requirements that commanders and supervisors ensure any login to a network infrastructure device requires PKI-based authentication/credentials.	Q1 FY 2019
Deploy a Privileged Account Management and/or an additional Alternate Two-Factor Authentication solution that supports the hardware and software solutions procured (i.e. CyberArk type of solution).	Q4 FY 2019
Validation by Internal Controls Reporting.	Q1 FY 2020

Material Weaknesses Identified During the Period

Title of Material Weakness	
Surface Force Incidents (ICO-2018-01 / ICO-14-MW)	
Description of Material Weakness	
Following a tragic increase in surface fleet incidents in the first eight months of 2017, the Vice Chief of Naval Operations (VCNO) directed a comprehensive review (CR) of surface fleet operations and incidents at sea that have occurred over the past decade to make detailed recommendations with respect to corrective actions necessary to ensure the safety of the Navy's people, safe operations at sea, and the readiness of Navy forces. Along a similar timeline, the Secretary of Navy formed an independent subject matter team review to conduct a broader Strategic Readiness Review (SRR) to complement the CR in determining root causes with a specific focus on the force and the overall culture of operational risk management, training and department organization.	
Internal Control Reporting Category	
Force Readiness (ICO)	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	Status
Completion of the Under Secretary of the Navy/VCNO Consolidated CR/SRR Recovery Playbook.	Q4 FY 2019

Title of Material Weakness	
DON has not implemented top-down controls over its complex business IT environment and does not have an enterprise-wide strategy for managing its financial management systems (ICO-2018-02 / ICO-15-MW)	
Description of Material Weakness	
The Department of the Navy (DON) has not implemented top-down controls over its complex business information technology (IT) environment and does not have an enterprise-wide strategy for managing its financial management systems.	
Internal Control Reporting Category	
Information Technology	
Targeted Correction Date	
Q4 FY 2020	
CAP Milestones	Status
Conducted general ledger (GL) system migration gap analysis (Defense Industrial Financial Management System (DIFMS), Military Sealift Command Financial Management System (MSC-FMS), Integrated Management Processing System (IMPS), and Defense Working Capital Fund Accounting System (DWAS)).	Completed
Policy as DON centralizes processes, continued to document risks and controls throughout the organization to better manage business risk and provide oversight from the top-down through an enterprise governance, risk and compliance program. This ensured: <ul style="list-style-type: none"> • Systems and processes undergoing modernization efforts will process all financial activity at the United States Standard General Ledger (USSGL) level, and meet Federal Financial Management Improvement Act (FFMIA) of 1996 and Standard Financial Information Structure (SFIS) financial requirements and Office of Management and Budget Circular No. A-123 internal control requirements. • Continue to provide DON policies, procedures, and/or guidance to remediate outstanding Federal Information System Controls Audit Manual (FISCAM) deficiencies as business processes continue to evolve through the system consolidation (in progress). 	Completed
Consolidate and optimize GL feeder systems to Command Financial Management System-Consolidated (CFMS-C) as the core financial feeder system for the Standard Accounting, Budgeting, and Reporting System (SABRS) environment.	FY 2019
Migrate U.S. Fleet Forces Command (FFC), Commander, U.S. Pacific Fleet (PACFLT), and Commander, Navy Reserve Force (RESFOR) to SABRS as their core GL (in progress).	FY 2019
Commander, Naval Installations Command, FFC, PACFLT, and RESFOR will be using CFMS-C as their feeder system.	FY 2019
DIFMS (Navy and U.S. Marine Corps (USMC)), DWAS, MSC-FMS, and IMPS will be migrated to Navy Enterprise Resource Planning (ERP).	FY 2020
Naval Air Systems Command (NAVAIR), which is currently using Navy ERP as their general fund (GF) GL, will expand to include their working capital fund (WCF) GLs in Navy ERP.	FY 2020
Six budget submitting offices (Naval Special Warfare Command, Navy Personnel Command, Naval Facilities Engineering Command (NAVFAC), DON Assistant for	FY 2020

Administration, Naval Intelligence Activity, and Field Support Activity) will be using CFMS-C as their feeder system.	
Phase I of the Navy Bureau of Medicine and Surgery (BUMED) migration to the General Fund Enterprise Business Systems (GFEBS).	FY 2020
Decommission DWAS.	FY 2020
PRISM will be migrated to Electronic Procurement System (ePS).	FY 2020
NAVFAC, BUMED TI17, Ship Depot Maintenance, and Naval Postgraduate School will be migrated to SABRS.	FY 2020
Complete planning for SABRS to Navy ERP migration.	FY 2020
Modernize Navy ERP.	FY 2020
Decommission Standard Accounting and Reporting System – Field Level (STARS-FL) and STARS – Headquarters Level (STARS-HCM).	FY 2020
Naval Sea Systems Command and Office of Naval Research (ONR) will be using Navy ERP.	FY 2020
ONR, which is currently using Navy ERP as their GF GL, will expand to include their WCF GL in Navy ERP.	FY 2020
USMC will be using CFMS-C as the feeder system.	FY 2020
New system functionality for Military Pay will be added to Navy Standard Integrated Personnel System (NSIPS).	FY 2020
Develop, finalize and implement a plan for consolidation of property systems which do not meet financial accountability standards, to a single solution.	FY 2020 +
Upgrade and consolidate the GL systems (Navy ERP, SABRS) with the core feeder system (CFMS-C) into Navy ERP Next Generation.	FY 2020 +
Complete an independent validation of the material weakness remediation.	FY 2020 (TBD)

Title of Material Weakness	
Oversight of Third Parties Managing Assets (ICO-2018-03 / ICO-16-MW)	
Description of Material Weakness	
The Department of the Navy has insufficient oversight over inventory and assets managed by third parties. Third parties may include Defense Logistics Agency, Army, contractors, and related-Defense Contract Management Agency oversight.	
Internal Control Reporting Category	
Contract Administration, Supply Operations	
Targeted Correction Date	
Q3 FY 2021	
CAP Milestones	Status
Identify population of DON asset types held by third parties.	Q1 FY 2019
Assess root cause of insufficient oversight of DON assets managed by third parties.	Q2 FY 2019
Assess the adequacy of current contractual requirements and service provider agreements.	Q2 FY 2019
Update roles and responsibilities of service providers to reflect appropriate controls for oversight of assets.	Q4 FY 2019
Implement policy and mechanisms to ensure adequate oversight of assets held by third parties.	Q1 FY 2020
Ensure training to applicable DON commands and third parties on policies and procedures.	Q2 FY 2020
DON and third parties conduct and provide evidence of testing relevant on policy and oversight.	Q4 FY 2020
Perform an independent validation of the material weakness remediation.	Q3 FY 2021

Title of Material Weakness	
Submission of Criminal Subject Fingerprint Cards and Reporting Disposition of Criminal Charges (ICO-2018-04 / ICO-17-MW)	
Description of Material Weakness	
The Department of the Navy (DON) is not in full compliance with the criminal justice reporting requirements and timely transfer of information to the Federal Bureau of Investigation (FBI).	
Internal Control Reporting Category	
Personnel and Organizational Management	
Targeted Correction Date	
Q3 FY 2020	
CAP Milestones	Status
Obtain delegation of authority on policy ownership for the DON.	Q1 FY 2019
Issue policy directing DON compliance with criminal justice reporting requirements and the timely transfer of information to the Federal Bureau of Investigation (FBI) Criminal Justice Information System (CJIS).	Q3 FY 2019
Coordinate policy implementation with the Chief of Naval Operations (CNO) and Commandant of the Marine Corps (CMC).	Q4 FY 2019
Enforcement and accountability for policy compliance.	Q1 FY 2020
Update Navy and Marine Corps criminal justice reporting operating procedures.	Q1 FY 2020
Train relevant DON stakeholders on policy and implementation.	Q2 FY 2020
Conduct testing on criminal justice reporting implementation.	Q3 FY 2020
Perform an independent validation of the material weakness remediation.	Q3 FY 2020

Financial Reporting Material Weaknesses

The following table lists the material weaknesses in Internal Control over Financial Reporting (ICOFR) and incorporates changes from the weaknesses reported in the Fiscal Year (FY) 2017 Department of the Navy (DON) Statement of Assurance (SOA).

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)					
Statement of Assurance: Controls are not in place to provide Reasonable Assurance					
End-to-End Process	FY 2018 Beginning Balance	New	Resolved	Reassessed	FY 2018 Ending Balance
Acquire-to-Retire	2	-	-	-	2
Budget-to-Report	7	-	(1)	-	6
Hire-to-Retire	1	-	-	-	1
Plan-to-Stock	4	-	(1)	-	3
Procure-to-Pay	6	-	(1)	(1)	4
Multiple End-to-End Processes	4	-	-	-	4
Total ICOFR Material Weaknesses	24	-	(3)	(1)	20

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2017 Targeted Correction Date	Revised Targeted Correction Date	Page #
Acquire-to-Retire	Real Property Existence & Completeness (E&C) and Construction in Process (CIP)	FY 2006	Q4 FY 2018	Q2 FY 2020	45
Acquire-to-Retire	General Equipment (GE) – Ships/Submarines, Aircraft, Satellites, Trident Missiles, Remainder	FY 2007	Q1 FY 2019	Q1 FY 2020	46
Budget-to-Report	Fund Receipt and Distribution (FRD) Reconciliation Process	FY 2016	Q4 FY 2017	Q1 FY 2019	53
Budget-to-Report	Fund Balance with Treasury (FBwT) Reconciliations	FY 2016	Q4 FY 2017	Q3 FY 2023	54
Budget-to-Report	Feeder Systems Reconciliations	FY 2015	Q1 FY 2019	Q2 FY 2021	56
Budget-to-Report	Posting logic does not produce expected financial and budgetary accounting relationships	FY 2015	Q2 FY 2019	Q2 FY 2021	58

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2017 Targeted Correction Date	Revised Targeted Correction Date	Page #
Budget-to-Report	The Navy has inconsistent procedures to record journal vouchers (JV) and Standard Business Transactions (SBT)	FY 2013	Q3 FY 2018	Q1 FY 2020	60
Budget-to-Report	Contracts written in support of Building Partner Capacity cases show the no-year line of accounting, which does not correctly display the expiration date of funds	FY 2015	Q4 FY 2019	Q3 FY 2019	64
Hire-to-Retire	Military Pay and Personnel (MILPAY)	FY 2015	Q4 FY 2020	Q1 FY 2023	65
Plan-to-Stock	Naval Shipyard Requisition Reconciliations	FY 2013	Q2 FY 2019	Q2 FY 2020	67
Plan-to-Stock	Inventory Existence and Completeness and Valuation	FY 2005	Q4 FY 2019	Q2 FY 2022	69
Plan-to-Stock	Operating Materials and Supplies (OM&S)	FY 2005	Q4 FY 2017	Q4 FY 2024	71
Procure-to-Pay	Accounts Payable (A/P) Accrual Methodology	FY 2017	Q4 FY 2018	Q2 FY 2019	76
Procure-to-Pay	Individuals without properly documented authority are approving purchase requests, purchase orders, and certifying invoices for payment.	FY 2014	Q3 FY 2019	Q2 FY 2020	78
Procure-to-Pay	Obligations are not timely recorded in the General Ledger (GL)	FY 2012	Q4 FY 2018	Q2 FY 2020	80
Procure-to-Pay	Retention of Transportation Documents	FY 2013	Q2 FY 2019	Q1 FY 2019	82
Multiple	Ineffective Controls over Statement of Budgetary Resources (SBR) Balances	FY 2017	Q4 FY 2020	Q4 FY 2020	83

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2017 Targeted Correction Date	Revised Targeted Correction Date	Page #
Multiple	Shared Service Provider (SSP) Oversight	FY 2016	Q2 FY 2018	Q4 FY 2019	85
Multiple	Reimbursable Work Order (RWO) Controls	FY 2012	Q4 FY 2020	Q3 FY 2022	87
Multiple	Offline Military Standard Requisitioning and Issue Procedures (MILSTRIP) Requisitions	FY 2009	Q4 FY 2018	Q2 FY 2020	90

Material Weaknesses Corrected During the Period			
Internal Control Reporting Category	Title of Material Weakness	Targeted Correction Year	Page #
Procure-to-Pay	Military Sealift Command (MSC) liquidations and payments lack supporting receipt and acceptance documentation for the United States Marine Corps (USMC)	Q4 FY 2018	91
Plan-to-Stock	Visual Inter-Fund System Transaction Accountability (VISTA) Controls	Q1 FY 2018	92
Budget-to-Report	The Navy's Beginning Balances are unsupported	Q3 FY 2018	93

Material Weaknesses Reassessed During the Period			
Internal Control Reporting Category	Title of Material Weakness	Targeted Correction Year	Page #
Procure-to-Pay	Transportation Account Codes (TAC)	Q3 FY 2021	95

Uncorrected Material Weaknesses Identified During Prior Periods

Title of Material Weakness	
Real Property Existence & Completeness (E&C) and Construction in Process (CIP) (ICOFR-11-MW)	
Description of Material Weakness	
The DON does not have effective procedures and policies to support existence and completeness (E&C) and construction in process (CIP) of real property.	
Internal Control Reporting Category	
Acquire-to-Retire	
Targeted Correction Date	
Existence and Completeness – Q4 FY 2019 Construction in Process – Q2 FY 2020	
CAP Milestones	Status
Real Property - Existence and Completeness (E&C)	
Develop inventory re-baseline procedures.	Completed
Test procedures at representative installation.	Q1 FY 2019
Develop and define training for field staff executing procedures.	Q1 FY 2019
Distribute procedures to field for execution.	Q2 FY 2019
Progress checks, proof package reviews.	Q2 FY 2019
Facility Engineering Commands' E&C complete.	Q3 FY 2019
Perform an independent validation of the material weakness corrective action plan.	Q4 FY 2019
Real Property – Construction in Process (CIP)	
Validate military construction (MILCON) E&C through substantive testing.	Q2 FY 2019
Develop, implement, and validate effective implementation of valuation for non-MILCON real property.	Q4 FY 2019
Migrate to Standard Accounting, Budgeting, and Reporting System (SABRS).	Q1 FY 2020
Perform an independent validation of the material weakness corrective action plan.	Q2 FY 2020

Title of Material Weakness
General Equipment (GE) (ICOFR-12-MW)
Description of Material Weakness
<p>Ships/Submarines: The Department of the Navy (DON) cannot establish and/or support ownership and valuation of ships and submarines due to lack of supporting documentation, improper interpretation of guidance, underutilization of the Accountable Property System of Record (APSR), and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of the Navy's ships and submarines. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.</p> <p>Aircraft: The DON cannot establish and/or support ownership and valuation of aircraft due to lack of supporting documentation, improper interpretation of guidance, underutilization of the APSR, and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of aircraft assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.</p> <p>Trident Missiles: The DON cannot establish and/or support ownership and valuation of GE due to lack of supporting documentation, improper interpretation of guidance, underutilization of the APSR, and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of GE assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.</p> <p>Remainder: The DON cannot establish and/or support ownership and valuation of GE due to lack of supporting documentation, improper interpretation of guidance, underutilization of the APSR, and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of GE assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation (GE-Remainder).</p> <p>Satellites: The DON cannot establish and/or support ownership and valuation of satellites due to lack of supporting documentation, improper interpretation of guidance, underutilization of the APSR, and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of satellite assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.</p>
Internal Control Reporting Category
Acquire-to-Retire
Targeted Correction Dates
Ships/Submarines – Q4 FY 2018 Aircraft – Q1 FY 2019 Trident Missiles – Q1 FY 2020 Remainder – Q1 FY 2020 Satellites – Q2 FY 2018

CAP Milestones	Status
General Equipment – Ships/Submarines	
Completed preliminary inventory list, updating the Defense Property Accountability System (DPAS) where necessary.	Completed
Completed preliminary existence and completeness (E&C) validation of available ships at Naval Bases (NB) Norfolk, Little Creek, and Mayport.	
The Assistant Secretary of the Navy (Financial Management & Comptroller) (ASN (FM&C)) made initial E&C assertion for ships and subs.	Completed
The Department of Defense Inspector General (DoD IG) conducted and completed an audit on E&C of vessels with no issues.	Completed
Developed an independent vessel universe.	Completed
Documented Navy Maintenance and Modernization valuation methodology.	Completed
Developed 12 pilot vessel assertion packages.	Completed
Conducted the first 100% inventory/affidavit event.	Completed
Reconciled first 100% inventory to universe.	Completed
Obtained Forms DD 250 for Vessel Universe.	Completed
Developed and implemented an Outlook mailbox process for DD 250s for current deliveries of new vessels.	Completed
Developed and implemented APSR to Naval Vessel Register reconciliation process.	Completed
Completed initial draft of the Navy Ships and Subs Beginning Balance (BB) Valuation Methodology document.	Completed
Navy Ships and Subs Valuation Cost Engineering and Industrial Analysis Division (SEA05C) Standard Accounting and Reporting System (STARS) Position Paper (Statement of Federal Financial Accounting Standards (SFFAS) 50).	Completed
Vessel Valuation: Appropriation-Based Methods.	Completed
Vessel Valuation: Military Sealift Command Contract-Acquired Vessels.	Completed
Vessel Valuation: STARS/Naval Sea Systems Command (NAVSEA) 05C Data-Based Method.	Completed
Vessel Valuation: Like Item Methods.	Completed
Reconciliation of DPAS to Vetted Vessel Universe.	Completed
Maintained an inventory of ships in DPAS.	Completed
Provided the STARS valuation reports to update DPAS.	Completed
Completed final draft of the Navy Ships and Subs BB Valuation Methodology document.	Completed
Documented Navy Estimated Service Life.	Completed
Documented Navy Placed-In-Service (PIS) dates.	Completed
Reconciled universe to APSR.	Completed
Developed and documented E&C roles and responsibilities sustainment processes.	Completed
Conducted second 100% inventory/affidavit event.	Completed
Reconciled second 100% inventory to universe.	Completed
Identified and obtained other documentation to support R&O.	Completed
Developed sustainment procedures for E&C.	Completed
Navy Ships and Subs Direct Cost Interim Construction in Progress (CIP) Solution Methodology document.	Completed
Developed sustainment procedures for Valuation (dependent upon successful deployment of the GE-CIP sustainment solution).	Completed
General Equipment (GE) – Aircraft	

Completed a preliminary inventory list, updating the Defense Property Accountability System (DPAS) where necessary.	Completed
Completed a preliminary E&C sample testing of aircraft at Naval Air Station (NAS) Norfolk, NAS Oceana, NAS Jacksonville, NAS Patuxent River, and Joint Reserve Base Andrews.	Completed
The ASN (FM&C) made initial E&C assertion for aircraft.	Completed
The DoD IG conducted and completed an audit on E&C of aircraft.	Completed
Maintained an inventory of aircraft in DPAS.	Completed
Reconciled Navy Enterprise Resource Planning (ERP) universe to the Aircraft Inventory Readiness and Reporting System (AIRRS) and performed a 100% baseline physical inventory of General Equipment (GE)-Aircraft. Documented the process, results, and findings of the physical inventory and determined if the objective was sufficiently met.	Completed
Reconciled Navy ERP to AIRRS to have an accurate baseline listing of aircraft that support E&C testing.	Completed
Developed testing procedures to conduct an independent validation of physical inventory of aircraft (Technical White Paper – Inventory Procedures Aircraft).	Completed
Developed alternate testing procedures to account for assets that cannot be physically inventoried (should only be by exception).	Completed
Conducted inventory and reconciled physical counts to the APSR (Navy ERP) and provided root cause analysis over any discrepancies.	Completed
Documented the process, results, and findings from inventory testing to support beginning balances.	Completed
Developed NAVAIR standard operating procedures for the reconciliation between AIRRS and Navy ERP to ensure physical inventory controls exist to support roll forward assurance for E&C.	Completed
Documented the methodology and the validity of President Budget estimates by demonstrating the estimate is a reasonable representative of historical cost for the asset(s).	Completed
Conducted research across a sample of asset populations, which utilize Budget Estimate Valuation, for aircraft. Results were documented in the Aircraft Valuation white paper.	Completed
Compared current budget estimates to transactional data in the core accounting system (Navy ERP) for each aircraft type.	Completed
Conducted a comparison of 1002 reports, and detailed Navy ERP transactions, summarizing the annual costs per type/model/series of aircraft to the proposed estimate.	Completed
Valuation white paper documented any outliers and disconfirming information encountered during the analysis.	Completed
Provided white paper for review.	Completed
Presented leadership with findings and recommendations.	Completed
Finalized and formalized Valuation Policy for Aircraft.	Completed
Documented Aircraft PIS date process and methodology in white paper.	Completed
Conducted analysis over the supporting documentation for acceptance, and title/ownership, to support PIS date for aircraft.	Completed
Developed white papers to document findings and recommendations on PIS date for specific assets and associated key supporting documents (KSD).	Completed
Reviewed white papers and presented to leadership.	Completed

Documented the rationale utilized to estimate the useful life of aircraft is in accordance with generally accepted accounting principles.	Completed
Reached out to the Office of the Secretary of Defense and obtained supporting documentation and analysis to justify useful life classifications for all aircraft.	Completed
Updated useful life classification and supporting documentation for aircraft useful life into a white paper.	Completed
Updated Useful Life categories in SECNAVINST 7320.10B, Accountability and Accounting of Property, Plant and Equipment (PP&E), with supportable useful life classifications of aircraft assets.	Completed
Finalized budget estimates for all aircraft. Validated PIS dates through PIS testing. Validated budget estimates through Impartial Verification and Validation (IV&V) reviews.	Completed
Completed historical budget estimates and provided supporting documentation for all aircraft.	Completed
Updated Valuation Strategy white paper to justify deemed cost valuation methodology for aircraft.	Completed
Reassessed the material weakness (MW) and the remaining remediation requirements for aircraft.	Completed
Developed and documented alternative physical inventory procedures using existing internal controls and operational processes that will allow for a sustainment go-forward process for validating the GE-Aircraft universe maintained in Navy ERP and AIRRS. Performed the alternative procedures on a cyclical (quarterly or annually) basis and documented results.	Completed
Developed sustainment procedures using an alternative to 100% physical inventory procedures, using existing internal controls and operational processes. Documented in Technical White Paper Aircraft Alternative Physical Inventory Procedures.	Completed
Evaluated lessons learned of 30 September 2016 E&C procedures/results.	Completed
Developed and documented alternative E&C methodology and procedures for sustainment.	Completed
Determined and validated Aircraft Capital Improvements Methodology.	Completed
Performed Aircraft Capital Improvements analysis (Phase 1 New Capability) to determine capital improvements values and recorded in Navy ERP.	Completed
Performed Aircraft Capital Improvements analysis (Phase 2 Enhanced Capability) to determine capital improvements values and recorded in Navy ERP.	Completed
Developed and documented Aircraft Valuation and Capital Improvements sustainment efforts.	Completed
Developed sustainment Aircraft Valuation procedures for fiscal year (FY) 2017 and forward. Developed white papers on valuation and Aircraft Capital Improvements.	Completed
Developed Valuation Strategy for FY 2017 historical “actual” valuation.	Completed
Performed monthly journal voucher (JV) to update CIP account (to include capturing CIP and relieving CIP).	Completed
Conducted PIS testing to support sustainment valuation procedures	Completed
Validated Aircraft Valuation and Capital Improvements sustainment efforts (SFFAS 6 compliance).	Q1 FY 2019
Identified timeframes for which “physical inventory by exception” will occur.	Completed (Ongoing)
Concluded and documented results of alternative existence and completeness (E&C) procedures.	Completed (Ongoing)

Implemented cyclical E&C alternative procedures in support of sustainment.	Completed (Ongoing)
General Equipment (GE) – Trident Missiles	
Established current baseline of locations and accountable owners.	Completed
Reviewed all records recording depreciation for objective quality evidence/KSD.	Completed
Reconciled locations not previously entered (if any).	Completed
Receive complete consolidated vendor parts and price list.	Completed
Establish rights and obligations for pooled assets. Conduct a walkthrough and evaluation of the chain of custody and ownership and the adequacy of KSDs.	Completed
Reclassification of Tridents from GE to Operating Materials and Supplies (OM&S).	Q1 FY 2019
Transition asset valuation from Defense Property Accountability System (DPAS) to Navy ERP and to revalue using prime contractor price list under SFFAS 48.	Q1 FY 2019
Footnote/document significant financial change in GE (net of general ledger account codes (GLAC) 1750 and 1759) OM&S (GLACs 1511-1516) accounts.	Q1 FY 2019
Validate baseline population through internal existence and completeness testing.	Q3 FY 2019
Develop SFFAS 3 process, including OM&S in development.	Q1 FY 2020
General Equipment (GE) – Remainder	
Documented controls and prioritized control weaknesses, and updated receipt and acceptance policies and procedures related to GE.	Completed
Entered a period of discovery including a business process standardization effort to map and streamline business processes and performed an initial round of existence and completeness (E&C) testing.	Completed
Performed inventory testing for E&C and additional testing for the proper financial accounting treatment for DON assets within Navy ERP.	Completed
Continued with E&C testing focusing on GE-Remainder.	Completed
Made an initial assertion of GE-Remainder assets.	Completed
Implemented a three-tiered valuation strategy on track to assert asset valuation.	Completed
Conducted an analysis of FIAR assertion packages and the GE strategy memo. Performed an APSR-to-KSD reconciliation and conducted a physical inventory of GE-Remainder assets.	Completed
Conducted FIAR valuation baselines of three population listings (Expeditionary Management Information System, Integrated Management Processing System, and Defense Medical Logistics Standard Support).	Completed
Completed development of asset management corrective action plan (CAP) 4.2 regarding E&C for GE-Remainder, and provided the CAP to budget submitting offices (BSO) for GE-Remainder.	Completed
Completed asset management CAP 4.3 and provided it to BSO for GE-Remainder valuation. A revised version of CAP 4.3 was provided to BSOs in Q3 FY 2017.	Completed
Uploaded BSO inventory procedures into the Audit Response Center tool and provided a revised CAP 4.2 to the BSOs.	Completed
Continued to work toward achieving an auditable E&C baseline by working with DON BSOs to update GE-Remainder inventory listings.	Completed
Performed analysis over GE-Remainder asset listings obtained from the APSR to determine the overall completeness of the GE-Remainder population within the DON; reviewed asset logs, mission-management data, and spend plans to substantiate the accuracy of GE-Remainder inventory listings.	Completed

Navy BSOs will analyze and stratify the GE-Remainder population into classes, prioritizing valuation efforts by focusing on assets with highest acquisition values and longest useful lives.	Q4 FY 2019
Establish GE-Remainder baseline valuations while addressing alternative valuation methodologies in accordance with SFFAS 50 to include PIS dates and Useful Life Estimation approaches.	Q4 FY 2019
Develop and execute book-to-floor inventory procedures to confirm existence of GE-Remainder capitalized assets being reported.	Q4 FY 2019
Gather KSD to support actual acquisition cost, date placed-in-service, and useful life for assets where this information is available.	Q4 FY 2019
Develop and execute risk-based “discovery” procedures to establish baseline completeness of GE-Remainder assets.	Q4 FY 2019
Develop and execute wall-to-wall inventories of newly discovered types and/or locations of assets to completely capture previously unreported assets in the listing of GE-Remainder assets.	Q4 FY 2019
Establish repeatable process for capturing capital GE – Remainder and retaining KSDs to support actual costs.	Q4 FY 2019
Document/update documentation of the end-to-end process for GE-Remainder which should address process and controls over receipt, transfer, access, inventory, impairment (as applicable), and disposal.	Q4 FY 2019
Prepare and submit a signed certification statement of baseline E&C readiness.	Q4 FY 2019
Develop procedures to perform physical inventory of capital GE-Remainder assets annually.	Q4 FY 2019
Design and implement controls over receipt, transfer, access, inventory, impairment, and disposal.	Q4 FY 2019
Perform an independent validation of the material weakness remediation for both valuation and E&C of GE-Remainder.	Q1 FY 2020
General Equipment (GE) – Satellites	
Reported nine satellites in the Capital Asset Manager System – Military Equipment (CAMS-ME).	Completed
Designated Navy ERP as the APSR for satellites and migrated nine satellites to Navy ERP.	Completed
Conducted virtual inventory of all nine satellites to complete the DON triennial inventory.	Completed
Reported nine satellites in the Defense Property Accountability System (DPAS).	Completed
Conducted an analysis of the supporting documentation, acceptance, and title/ownership to support PIS dates for all categories of satellites. Findings from this analysis are currently being incorporated into DON policy.	Completed
Updated and documented the useful life classification and the supporting documentation for the estimated useful life of satellites. Updates to SECNAVINST 7320.10B, Accountability and Accounting of PP&E, are being made to reflect the changes made to the useful life categories.	Completed
Developed methodologies for valuation and generated valuation packages for Mobile User Objective System (MUOS) satellites 1, 2, 3, and 4, using SFFAS 6 Actual Costs and SFFAS 50 Deemed Valuation. Valuation packages were reviewed by an IV&V team and are ready for audit. MUOS 5 was not valued because it is a CIP.	Completed

Completed an independent validation of the MW remediation related to satellites.	Completed
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Title of Material Weakness	
Fund Receipt and Distribution (FRD) Reconciliation Process (ICOFR-1-MW)	
Description of Material Weakness	
The Fund Receipt and Distribution (FRD) reconciliation process design requires improvements and more timely preparation. Field level general ledgers (GL) do not reconcile to Funding Authorization Documents.	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q1 FY 2019	
CAP Milestones	Status
Generated the FY 2016 Q4 FRD reconciliation based on established procedures utilizing data from the Transaction Universe and input from budget submitting offices (BSO) to address reconciliation variances.	Completed
Updated procedural documentation for the FRD reconciliation to enhance roles and responsibilities descriptions and defined follow-up procedures to address reconciliation variances.	Completed
Evaluated the effectiveness of controls over reconciliations by reviewing standard operating procedures and ensuring access to documentation and key supporting documents.	Completed
Commenced validation procedures by reviewing evidentiary artifacts to support corrective action plan validation.	Completed
Issued signed memo to BSOs instructing recording of full allocation values in the GL.	Completed
Identified cause of funding variances between Treasury and the GL to create a master list of issues and impediment.	Completed
Conducted internal control testing procedures to evaluate FRD for effectiveness (evaluate completion date, signed recon, improvement/elimination of variances).	Completed
Implemented accelerated production schedule of monthly FRD reconciliation, includes implementing 6-day response time for BSOs (completed Feb 2018).	Completed
Established requirements for timely reconciling item clearing and materiality thresholds with operational procedures designed to monitor compliance and remedy exceptions.	Completed
Completed and documented FRD reconciliation control tests to evaluate adherence to reconciliation standards.	Completed
Complete an independent validation of the material weakness remediation.	Q1 FY 2019

Title of Material Weakness	
Fund Balance with Treasury (FBwT) Reconciliations (ICOFR-2-MW)	
Description of Material Weakness	
The Department of the Navy (DON) Fund Balance with Treasury (FBwT) reconciliation does not effectively reconcile field level general ledger balances to reported amounts on budgetary reports and the financial statements. The DON does not perform effective oversight of the FBwT process performed by the Defense Finance and Accounting Service (DFAS).	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Dates	
Transformation – Q3 FY 2023 Oversight – Q1 FY 2019	
CAP Milestones	Status
Transformation	
Phase 1: Navy Enterprise Resource Planning (ERP) Vendor Pay.	Q4 FY 2019
Phase 1: Navy ERP Treasury Direct Disbursing (TDD) compliant.	Q4 FY 2019
Phase 1: Non-Treasury Disbursing Officer Daily Reporting.	Q4 FY 2019
Phase 1: Deployable Disbursing System (DDS) Daily Reporting Compliant.	Q4 FY 2019
Phase 2: Marine Corps Total Force System (MCTFS) TDD Compliant.	Q4 FY 2019
Phase 6: Navy ERP Contract Pay (CP). Ability to migrate CP self-payment approvals to Navy ERP, dependent upon Navy ERP Business Process Reengineering (BPR).	Q4 FY 2019
Phase 2: Navy Personnel and Pay System (NP2) TDD Compliant.	Q1 FY 2020
Navy ERP Tech Refresh.	Q2 FY 2020
Phase 2: Military Pay.	Q2 FY 2020
Phase 3: Civilian and Retiree & Annuitant Pay.	Q2 FY 2020
Phase 4: Non-ERP Contract Vendor Pay.	Q2 FY 2020
Phase 4: One Pay TDD Compliant.	Q2 FY 2020
Phase 3: Defense Civilian Payroll System (DCPS) TDD Compliant.	Q3 FY 2020
Navy Working Capital Fund Migration to Navy ERP.	Q4 FY 2020
Develop and pilot Navy financial statement compilation.	Q1 FY 2021
Develop Navy and Treasury reconciliation process.	Q1 FY 2021
Phase 3: Defense Retiree and Annuitant Pay System (DRAS2) TDD Compliant.	Q2 FY 2021
Navy ERP BPR.	Q4 FY 2021
Phase 5: Travel Pay. Solution is dependent upon the DoD Travel modernization program.	Q4 FY 2022
Phase 7: Interfund.	Q4 FY 2022
Treasury Reporting – Analysis and Transformation.	Q2 FY 2023
Perform an independent validation of the material weakness remediation.	Q3 FY 2023
Oversight	
Implemented Phase 2 of Navy Fund Balance Tool (NFT) at DFAS. This added functionality to reconcile Standard Accounting, Budgeting, and Reporting System (SABRS) to Defense Cash Accountability System (DCAS) at transaction level and DCAS to Navy Systems Management Activity at the summary level.	Completed

Generated reconciliation to demonstrate successful consecutive monthly reconciliations.	Completed
Reviewed NFT reconciliation and initiate strategy with DFAS to operationalize the tool (resolve material reconciling transactions and incorporate outputs in the end-to-end recon process).	Completed
Initiated strategy with DFAS to analyze/clear overaged intransits (undistributed) and report results.	Completed
Established requirements for timely reconciling item clearing and materiality thresholds with operational procedures designed to monitor compliance and remedy exceptions.	Completed
Conducted internal control testing procedures to evaluate Compilation Reconciliation and General Fund FBwT Summary Reconciliation for effectiveness (evaluate completion date, signed reconciliation, improvement/elimination of variances).	Completed
Complete an independent validation of the material weakness remediation.	Q1 FY 2019

Title of Material Weakness	
Feeder System Reconciliations (ICOFR-13-MW)	
Description of Material Weakness	
<p>The Department of the Navy's (DON) transactions resident in the Business Transaction Systems (BTS) cannot be reconciled to the DON General Ledger Accounting Systems (GLAS) due to system, policy, and process issues. Process variances, system interface, and configuration management issues present a risk that the DON could over/understate obligations, accounts receivable, accounts payable, and disbursements. Specifically, the following issues have been determined:</p> <ul style="list-style-type: none"> • Lack of GLAS that can uniquely identify every transaction resident in business transaction systems. Systemic issues cause the inability to trace and reconcile individual transactions back to the BTS. • Lack of comprehensive policy and guidance for BTS and GLAS owners to perform the necessary activities to ensure completeness and accuracy. • Lack of reoccurring file and transactional reconciliations between BTS and GLAS. • Lack of a proper control environment to reconcile BTS and GLAS transactions. • Lack of governance and monitoring processes to ensure that BTS and GLAS owners sustain the necessary activities to ensure completeness and accuracy. 	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q2 FY 2021	
CAP Milestones	Status
Developed BTS-to-GLAS Strategy and Approach document.	Completed
Issued guidance to BTS and GLAS system owners regarding accountability.	Completed
Established the BTS-to-GLAS baseline population.	Completed
Developed BTS Feeder System reconciliation definitions.	Completed
Developed a Prioritization Methodology for Navy GLAS feeder system reconciliations.	Completed
Executed a review of each BTS-to-GLAS interface.	Completed
Enhance DON FM Overlay to include information technology (IT) interface controls, if applicable.	Completed
Developed and implemented a Quality, Compliance, and Control program.	Completed
Develop and disseminate system interface procedures and/or standards across DON, including BTS and GLAS stakeholders, to provide further guidance on roles and responsibilities for the design and implementation of IT interface controls.	Completed
Establish governance processes for DON to assess the design and operating effectiveness of IT controls for BTS to GLAS interface processes (to include interface sampling techniques) to ascertain repeatable and sustainable reconciliations are in place given the continuous changes in business processes supporting interfaces due to system consolidation efforts. These governance processes will include managing continuous risks related to IT interface controls.	Q1 FY 2019
Conduct Phase One assessment of BTS to GLAS interfaces (with emphasis on those interfaces supporting business processes that will not be changed), through sample selection, to determine the operating effectiveness of the interface controls for	Q2 FY 2019

validation of repeatable and sustainable reconciliations. Additionally, DON will also assess IT interface controls supporting either new or modified business processes prior to implementation. This will be done through a combination of walkthroughs and review of key supporting documentation and artifacts. At the conclusion of the review, actionable insights (if applicable) will be documented and provided to the business process and system stakeholder(s) with agreed upon remediation timelines.	
Conduct Phase Two assessment of BTS to GLAS interfaces to determine the operating effectiveness of the interface controls for validation of repeatable and sustainable reconciliations. Additionally, DON will also assess IT interface controls supporting either new or modified business processes prior to implementation. At the conclusion of the review, actionable insights (if applicable) will be documented and provided to the business process and system stakeholder(s) with agreed upon remediation timelines.	Q4 FY 2019
Conduct year three assessment of BTS to GLAS interfaces by selecting additional samples to determine the operating effectiveness of the interface controls for validation of repeatable and sustainable reconciliations. Additionally, DON will also will assess IT interface controls supporting either new or modified business process prior to implementation. At the conclusion of the review, actionable insights (if applicable) will be documented and provided to the business process and system stakeholder(s) with agreed upon remediation timelines.	Q2 FY 2020
Track source and target system environments enforcing IT interface controls that are in place and operating effectively (financial data incoming and outgoing) based on assessments completed and DON policies, procedures, standards, and/or guidance. Compliance and non-compliance will be tracked and reported via governance processes.	Q2 FY 2021
Execute governance sustainment processes for monitoring risks and ensuring that DON stakeholders, including BTS and GLAS, have effectively assessed and implemented IT interface controls based on DON policies, procedures, standards, and/or guidance.	Q2 FY 2021
Complete an independent validation of the material weakness remediation.	Q3 FY 2021

Title of Material Weakness	
Posting logic does not produce expected financial and budgetary accounting relationships (ICOFR-17-MW)	
Description of Material Weakness	
General Ledger Accounting Systems (GLAS) posting logic does not produce expected financial and budgetary accounting relationships.	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q2 FY 2021 (Identified corrective action will not fully remediate the issues, however risk will be significantly minimized.)	
CAP Milestones	Status
Documented Program Budget Information System (PBIS), Defense Departmental Reporting System (DDRS), Standard Accounting, Budgeting, and Reporting System (SABRS), Navy Enterprise Resource Planning (ERP), Navy Systems Management Activity, and Standard Accounting and Reporting System (STARS) change requirements based upon recommendations from the PBIS working group with the goal of increasing compliance to the United States Standard General Ledger (USSGL).	Completed
PBIS working group designed to improve the business processes and accounting for the receipt, distribution, and reporting of funds between PBIS and DDRS.	Completed
Performed crosswalk compliance and root cause analysis of Department of the Navy (DON) general fund (GF) general ledger (GL) to DDRS-Budgetary (DDRS-B) system to assess alignment with USSGL.	Completed
Implemented interim corrective actions to address gaps determined by root cause and compliance analysis for DON GF GL to DDRS-B crosswalks (removed obsolete crosswalks, improved supportability, and fixed incorrect crosswalks).	Completed
Validated the DON GF GL to DDRS-B crosswalks.	Completed
Performed crosswalk compliance and root cause analysis of DON working capital GLs to DDRS-B to assess alignment with USSGL.	Completed
Designed a governance process to oversee changes to DON GL to DDRS financial crosswalks.	Completed
Implemented interim corrective actions to address the gaps identified by the PBIS working group (removed obsolete crosswalks, improved supportability, and fixed incorrect crosswalks).	Completed
Provided corrective action plan (CAP) package for independent validation check. Performed validation of the PBIS working group findings.	Completed
Assessed working capital fund (WCF) DDRS-B crosswalk compliance gaps/issues, and identified and implemented interim corrective actions to address the deficiencies (remove obsolete crosswalks, improve supportability, and fix incorrect crosswalks).	Completed
Provided the DON WCF GL to DDRS-B crosswalk CAP package for validation.	Completed
Navy ERP – Built baseline universe of scenarios data from Transaction Universe GF and WCF files from FY 2017 P12.	Completed
Defined and documented the posting logic analysis strategy and approach.	Completed

Navy ERP – Performed Treasury Financial Manual compliance check on FY 2017 P12 Baseline Universe of Posting Logic Scenarios.	Completed
Develop and implement On Top manual journal voucher (JV) Master Issue List.	Completed
Develop and implement Field Level JV Master Issue List.	Completed
Develop and implement Automated JV Master Issue List.	Completed
Develop and implement Crosswalk Master Issue List for crosswalks that change the 4-digit GL account.	Completed
Develop and implement Navy ERP Posting Logic Master Issue List.	Completed
Develop and implement Journal Voucher and Posting Logic Reduction and Elimination Process.	Completed
Navy ERP – Establish process to govern posting logic changes within the system.	Q1 FY 2019
Navy ERP – Consolidate, categorize, document and prioritize system requirements for changes to enable fixing posting logic compliance issues.	Q1 FY 2019
Implement system changes to address prioritized posting logic issues in Navy ERP.	Q1 FY 2021
Complete an independent validation of the material weakness remediation.	Q2 FY 2021

Title of Material Weakness	
The Navy has inconsistent procedures to record journal vouchers (JV) and Standard Business Transactions (SBT) (ICOFR-18-MW)	
Description of Material Weakness	
The Navy has inconsistent procedures to record JVs and SBTs.	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q1 FY 2020	
CAP Milestones	Status
Conducted command level training to identify key controls around field level Adjusting Journal Entries (AJE) to ensure entries are properly prepared, reviewed, and documented in a standardized process.	Completed
The December 2015 Memorandum of Understanding between DFAS and Navy Office of Financial Operations (FMO) provides guidelines for JV approvals when Navy JV review is required (updated 4/5/2016).	Completed
Proper implementation/execution of the existing JV policies and procedures are reinforced through the JV Working Groups. The JV Working Groups, including the Root Cause and Analysis Team, is an ongoing effort to assist in identifying and taking actions to eliminate unsupported (and supported) JVs and strengthening the JV support packages for those deemed necessary. Additionally, DFAS-Cleveland (DFAS-CL) hosted the Cotton & Co. Financial Statement Compilation and Reporting (FSCR) team for a site visit 4-10 May 2016, during which DFAS-CL requested a walkthrough review of the fiscal year (FY) 2015 JV sample packages that had resulted in exceptions, so Navy could get a better understanding of what was specifically lacking. Cotton & Co. explained what caused the exceptions. DFAS-CL provided clarifying explanations for the purpose of the JVs and the detailed JV support. This conversation was constructive and resulted in Cotton & Co. having more of an understanding of the JVs that were tested and stated that the additional information would have "cleared" some of the exceptions. Additionally, Cotton & Co. suggested the possibility of performing their JV testing while on site at DFAS-CL, so if there were questions regarding a JV sample, the responsible accountant would then have the opportunity to provide clarification, before the sample is considered to have an exception.	Completed
White papers for the JVs identified as exceptions were reviewed by Departmental reporting accountants and appropriately updated by 31 December 2015. Departmental Branch Chiefs communicated to JV preparers and reviewers the importance of keeping the white papers up-to-date and ensuring the JV packages follow what has been documented in the white paper. The accountants were instructed to clearly note when a deviation from the white paper occurs and to document why the deviation was necessary. The JV Working Groups, including the Root Cause and Analysis Team, will also be an ongoing effort to assist in strengthening the JV support packages. Additionally, DFAS-CL hosted the Cotton & Co. FSCR team for a site visit from 4-10 May 2016, during which DFAS-CL requested a walkthrough review of the FY 2015 JV sample packages that had resulted an exceptions, so Navy could get a better understanding of what was	Completed

specifically lacking. Cotton & Co. explained what caused the exceptions. DFAS-CL provided clarifying explanations for the purpose of the JVs and the detailed JV support. This conversation was constructive and resulted in Cotton & Co. having more of an understanding of the JVs that were tested and stated that the additional information would have “cleared” some of the exceptions. Additionally, Cotton & Co. suggested the possibility of performing their JV testing while on site at DFAS-CL, so if there were questions regarding a JV sample, the responsible accountant would then have the opportunity to provide clarification, before the sample is considered to have an exception (updated 19 May 2016).	
The impact of system generated JVs is reconciled when the Transaction Universe is prepared. To address the impact of the system generated JVs involving Standard General Ledgers (SGL) 4222 and 4802, DFAS-CL updated the System Generated DDRS JV narratives to expand on how the undistributed calculation relates to SGLs 4222 and 4802. Additionally, DFAS-CL hosted the Cotton & Co. FSCR team for a site visit from 4-10 May 2016. During the site visit, DFAS-CL presented additional explanation how the undistributed accounts are calculated within DDRS Budgetary (DDRS-B). Part of the on-site provided-by-client (PBC) request was the system generated DDRS JV narratives, which were provided 9 May 2016 (updated 19 May 2016).	Completed
Developed “Department of the Navy (DON) Policy for Business Entries Including Journal Vouchers,” which includes standardizing the definition of JV vs. standard business transactions (SBT). Leveraged DON JV AJE policy and performed second round of testing of the field level AJE.	Completed
DFAS collaborated with the Navy on policies and procedures to provide guidance to the budget submitting offices (BSO) for DDRS-B JV packages to ensure they are properly supported, including providing a standard operating procedure and “JV Perfect Package” that the BSOs could use as an example of a supported JV package (updated 26 May 2016). As of 1 September 2016, BSO JVs for TI17 appropriations have been discontinued, except for XX years. In support of efforts to eliminate/reduce JVs across the Navy, Navy decided to discontinue the BSO DDRS-B command level funding JVs for TI17 with the exception of the XX year (updated 1 September 2016).	Completed
Developed and implemented a quarterly field level journal voucher (FLJV) quality and compliance monitoring process.	Completed
Reported metrics regarding BSO submission of quarterly quality and compliance test results.	Completed
Reported quarterly Independent Verification results for JV packages tested.	Completed
Reported quarterly metrics for JV packages tested.	Completed
Defined criteria for assessing BSO processes/procedures to properly categorize business entries as JVs vs. SBTs.	Completed
Received BSO processes/procedures for analyzing business entries \$1,000 or greater and properly applying the JV criteria specified in the DON JV Policy.	Completed
Defined and documented process for monitoring BSO corrective actions on identified deficiencies (Notice of Findings and Recommendations (NFR) recommendation #3d).	Completed
Piloted process for monitoring corrective actions on identified deficiencies with one BSO.	Completed
Developed corrective action/remediation reporting metrics template.	Completed

TOE: To ensure policies and procedures continue to be followed consistently, DFAS continues to complete monthly JV peer reviews between DFAS-CL, DFAS Indianapolis, and DFAS Columbus, in addition to ongoing iControl testing requirements in support of the Managers' Internal Control Program. For corrective action plan (CAP) validation, testing will be performed on the monthly peer reviews for the months of April, May, June.	Completed
Assessed BSO processes/procedures for analyzing business entries and properly applying the JV criteria specified in the DON JV Policy.	Completed
Implemented process for monitoring corrective actions on identified deficiencies at all BSOs (FL JV Q3 FY 2017 test cycle).	Completed
Provided feedback and recommendations on BSO processes/procedures for analyzing business entries \$1,000 or greater and properly applying the JV criteria specified in the DON JV Policy.	Completed
Developed BSO checklist for validating FLJV population completeness and disseminate to BSOs.	Completed
Defined and documented oversight and monitoring process over BSO FLJV population completeness validation.	Completed
Received BSO FLJV log completeness checklist as part of the Q4 FY 2017 FLJV Quality and Compliance testing submission.	Completed
Executed process for Q4 FY 2017 FLJV Quality and Compliance testing cycle.	Completed
Provided feedback and recommendations to BSOs on monitoring results, to include corrective actions for identified deficiencies as applicable.	Completed
Received BSO FLJV log completeness checklist as part of the Q1 FY 2018 FLJV Quality and Compliance testing submission.	Completed
Executed established process for Q1 FY 2018 to demonstrate operational effectiveness.	Completed
Provided feedback and recommendations to BSOs on monitoring results, to include corrective actions for identified deficiencies as applicable.	Completed
Executed established oversight and monitoring process to demonstrate operational effectiveness (Q3 FY 2017 thru Q1 FY 2018 test cycles).	Completed
Received BSO FLJV log completeness checklist as part of the Q2 FY 2018 FLJV Quality and Compliance testing submission.	Completed
Executed established process for Q2 FY 2018 to demonstrate operational effectiveness.	Completed
Provided feedback and recommendations to BSOs on monitoring results, to include corrective actions for identified deficiencies as applicable.	Completed
Reported metrics regarding BSO submission of quarterly quality and compliance test results.	Completed
Reported quarterly Independent Verification results for JV packages tested.	Completed
Reported quarterly metrics for JV packages tested.	Completed
Defined and documented process for monitoring BSO corrective actions on identified deficiencies NFR recommendation #3d.	Completed
Piloted process for monitoring corrective actions on identified deficiencies with one BSO.	Completed
Developed corrective action/remediation reporting metrics template.	Completed
Implemented process for monitoring corrective actions on identified deficiencies at all BSOs (FLJV Q3 FY 2017 test cycle).	Completed

Executed established oversight and monitoring process to demonstrate operational effectiveness (Q3 FY 2017 thru Q1 FY 2018 test cycles).	Completed
Remediation of CAPs for two new JV NFRs.	Q1 FY 2020

Title of Material Weakness	
Contracts written in support of Building Partner Capacity (BPC) cases show the no-year line of accounting (LOA), which does not correctly display the expiration date of the funds. (ICOFR-22-MW)	
Description of Material Weakness	
<p>BPC is funded through a variety of government appropriations with various periods of availability. BPC funds are transferred to the Foreign Military Sales (FMS) Trust Fund for execution, which shows a no-year appropriation. DoD appropriations within the FMS Trust Fund have expiration dates. Contracts written in support of BPC cases show the no-year LOA, which does not correctly display the expiration date of the funds. This increases the risk of obligations being made past the funds expiration date, potentially resulting in an Antideficiency Act (ADA) violation.</p> <p>While a statement is included on all funding documents with expiring funds identifying the expiration date, those statements may not be carried forward on obligating documents or systems by the respective performing activity.</p>	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q3 FY 2019	
CAP Milestones	Status
Marine Corps Systems Command (MCSC) updated the LOA between BPC and FMS funds because FMS funds have no expiration date and show a no-year appropriation, while DoD appropriations within the FMS Trust Fund have expiration dates.	Completed
MCSC notified Headquarters, U.S. Marine Corps (HQMC) that the DON does not have authority to update the LOA.	Completed
MCSC and Navy International Programs Office (IPO) worked with stakeholders to elevate the issue to OSD.	Completed
USMC provided artifacts to support established compensating controls for independent validation.	Completed
Coordinated with Navy IPO to identify compensating controls for Navy BPC transactions and develop implementation plan.	Completed
Navy will implement compensating controls.	Q1 FY 2019
Navy will validate controls are operating effectively.	Q1 FY 2019
Navy will provide artifacts to support established compensating controls for independent validation.	Q3 FY 2019
The DON is not able to fully remediate the material weakness and it has been elevated to the OSD to be addressed.	

Title of Material Weakness	
Military Pay and Personnel (MILPAY) (ICOFR-20-MW)	
Description of Material Weakness	
There are multiple widespread issues with governance, oversight, quality of service, supportability, systems and control over pay and personnel functions resulting in lack of timely, accurate and disbursing supported pay and personnel transactions. Insufficient internal controls and oversight regarding roles and responsibilities, separation of duties, enforcement, and system access to identify trends, deficiencies, and corrective actions have been identified. Additionally, the DON military pay and financial management system lacks modern capabilities to support auditability.	
Internal Control Reporting Category	
Hire-to-Retire	
Targeted Correction Date	
Q1 FY 2023	
CAP Milestones	Status
Updates were made to OPNAVINST 5200.45 to clearly delineate the roles and responsibilities of the organizations responsible for personnel and pay service delivery.	Completed
A Managers' Internal Control Program (MICP) for the Navy Personnel and Pay (NP2) Support Center was established to provide necessary internal controls oversight and compliance framework.	Completed
Updated 46 standard operating procedures (SOP) and 49 trainings to ensure audit requirements for key supporting documentation (KSD), document retention locations, and internal control points are incorporated.	Completed
A dedicated pay and personnel training organization (PERS-213) was established. Additionally, job-specific training requirements for 10 out of 12 personnel and pay related functional areas were identified and established, and a set of first-generation (Phase 1) self-paced e-learning courses were developed to provide improved training opportunities and capabilities.	Completed
Gaps and inefficiencies in current document retention practices were assessed, a standard naming convention and new document retention policy was developed, and Total Records Information Management (TRIM) was deployed to standardize pay and personnel records retention processes and support audit compliance.	Completed
For the integrated personnel/pay (PERS-Pay) IT system, verified the "as-is" state of the process to create a "to-be" state, completed five of five development phases in a Pers/Pay Proof of Concept, Phases 1 and 2 of the Retirement and Separation form electronic DD 214.	Completed
Established three specialized functional service centers (Travel Claims, Strength Gains, and Reserve Pay Processing).	Completed
Established and developed an effort for a Command Pay and Personnel Administrator (CPPA) Navy Enlisted Classification (NEC) training course in collaboration with Personnel Specialist (PS) A-School. Reviewed Yeoman (YN) and PS A-School blocking to facilitate addition of CPPA NEC training requirements.	Completed

Develop and implement a Petty Officer in Charge (POIC)/Assistant Officer in Charge (AOIC) training plan. Review the Reference Guide and the Mentor's Guide for updates since May 2015.	Completed
Complete an assessment of the constraints associated with modernizing and maintaining human resources information technology (IT) applications in the afloat environment.	Q1 FY 2020
Implement initial capability delivery and fielding of an integrated automated personnel and pay information system across the Navy. The target for NP2 initial operating capability is Q1 FY 2021.	Q1 FY 2021
Refine NP2 pay capability based on implemented non-pay personnel management functionalities, such as billet management, retention, and performance management.	Q4 FY 2022
Refine NP2 pay capability based on implemented non-pay personnel management functionalities, such as adverse actions and grievances.	Q1 FY 2023
External or independent review of the MILPAY deficiency will occur to validate the remediation of the issue. Full operational capability (FOC) determination will be based on successful validation.	Q1 FY 2023

Title of Material Weakness	
Naval Shipyard requisitions cannot be reconciled to the general ledger (ICOFR-4-MW)	
Description of Material Weakness	
DON does not have proper controls over shipyard requisitions, specifically, receipt and acceptance documentation.	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q2 FY 2020	
CAP Milestones	Status
Issued NAVADMIN 066/16, Navy Audit Document Retention Guidance, directing commands to follow and improve processes, where needed, to meet financial document retention and approval requirements. NAVADMIN 066/16 references the Revised Document Retention Requirements to Support the Department of the Navy Financial Statements Audit memorandum dated January 29, 2015 and Financial Management (FM) Policy Letter 16-01: Delegation of Authority to Appoint Accountable Officials as the underlying policies.	Completed
Implemented and documented policies, guidance, and training at the command-level as needed to: 1. Retain the requisite financial documents outlined in the KSD matrix; 2. Properly complete and maintain written authorization of financial events through the use of completed DD 577 forms, with appropriate signature and timely date for related transactions; and 3. Retrieve all auditable documents in a timely manner. These are the broad actions commands took to implement the documentation requirements outlined in NAVADMIN 066/16. The underlying audit documentation was improved once commands implemented the NAVADMIN requirements. Work products from this corrective action included evidence that commands implemented the three requirements described above (e.g. training materials, new command guidance/communications, etc.). Commands submitted copies of the work products described to Director, Navy Staff (DNS) to review for adequacy.	Completed
Disseminated “personal for” (P4) message from DNS to all flag officers in April 2016 to bring their attention to the requirements of NAVADMIN 066/16 and to emphasize the importance of meeting audit documentation requirements within their commands. The P4 directed commands to send copies of the documented guidance, SOPs, and policy updates to the DNS office as evidence of compliance with NAVADMIN 066/16. It also stated that spot checks would be performed and commands would self-review audit document retention within 180-days of the NAVADMIN release date as part of the Managers’ Internal Control Program or command evaluation programs.	Completed
Document current authorization procedures for MILSTRIP, Contract/Vendor Pay (CVP), and Transportation of Things (ToT) transactions for each BSO accounting system. If necessary re-engineer process flows to standardize procedures across BSOs where possible.	Q1 FY 2019

Perform gap analysis to address audit requirements for the proper authorization of MILSTRIP, CVP, and ToT requisitions.	Q1 FY 2019
Design and document risk-based receipt and acceptance procedures for MILSTRIP processes in accordance with audit requirements.	Q2 FY 2019
Design and document authorization procedures for MILSTRIP, CVP, and ToT requisitions in accordance with audit requirements.	Q2 FY 2019
Implement authorization procedures for MILSTRIP, CVP, and ToT requisitions, and risk-based receipt and acceptance procedures for MILSTRIP processes.	Q4 FY 2019
Update standard operating procedures (SOP) and process flows with controls over shipyard requisition authorization and receipt and acceptance controls. Update the key supporting documentation (KSD) matrix with documentation requirements for MILSTRIP, CVP, and ToT delivered orders.	Q4 FY 2019
Provide training and guidance to BSOs and key service providers on the following: 1. MILSTRIP, CVP, and ToT receipt and acceptance controls; 2. Control procedures for the delegation of authority to approve purchase requests, purchase orders, and certify invoices; 3. Updated KSD matrix documents; 4. What constitutes KSD; 5. What constitutes complete supporting documentation that reconciles to the transactional detail recorded in the GL system; and 6. Navy's document retention policies.	Q4 FY 2019
Perform testing and collect evidentiary artifacts for three consecutive months as reasonable assurance controls are in place and working effectively.	Q2 FY 2020

Title of Material Weakness	
Inventory Existence and Completeness and Valuation (ICOFR-15-MW)	
Description of Material Weakness	
<p>Existence and Completeness (E&C):</p> <p>Current NAVSUP inventory count policies are not adequately designed to ensure that management is able to substantiate the existence and completeness of year-end inventory balance and assert that inventory reported in the year-end financial statements are accurately stated. NAVSUP currently has a process to conduct periodic inventory observations, and relies on various inventory systems, Web-based Commercial Asset Visibility (WebCAV), Commercial Asset Visibility-Organic Repairables Module (CAV-ORM), Relational Supply Optimized (R-Supply), Ship-Based Configuration Logistics Improvement Program (ShipCLIP), and Defense Logistics Agency (DLA)'s Distribution Standard System (DSS) (collectively referred to as business logistic applications or feeder systems), as support for the inventory input into Enterprise Resource Planning (ERP). However, such procedures are not adequate to support the inventory amounts being reported in a typical financial statement audit due to lack of proof of the reliability of all feeder systems. Further, NAVSUP has not yet fully coordinated its physical inventory process, including specified dates and procedures, as well as year-end reporting requirements to its contractors and service providers. Early and comprehensive notification of the process is necessary since a significant level of NAVSUP inventory is in the custody of others. NAVSUP will refine its planned approach, include additional planned procedures, draft standard operating procedures, and perform such procedures prior to the initial balance sheet audit.</p> <p>Valuation:</p> <p>Statement of Federal Financial Accounting Standards (SFFAS) 3 requires that inventory be valued at historical cost or latest acquisition cost (LAC). DoD policy (as reflected in DoD Financial Management Regulation (FMR) Volume 4, Chapter 4) requires that inventory be valued at historical cost using the moving average cost (MAC) flow assumption. Due to Navy's inability to implement MAC immediately after establishing compliant opening balances in accordance with SFFAS 48, Navy is researching additional options to accurately establish inventory values in a generally accepted accounting principles (GAAP)-compliant environment. DoD FMR Volume 1, Chapter 2, establishes SFFAS guidance as highest-level GAAP, and therefore Navy looked to SFFAS 3 for additional options for use in valuing inventory. Navy's ability to accurately calculate inventory values in Navy ERP using MAC will take a considerable amount of time, due to the system changes required to perform the calculations. Use of an automated environment external to Navy ERP to calculate MAC is unrealistic due to the frequency of required updates associated with recalculating MAC subsequent to each transaction. Due to the fact that weighted average cost (WAC) can be calculated periodically, this approach allows Navy considerable flexibility which is not afforded via use of MAC. Additionally, WAC can be more readily calculated external to the Navy ERP environment as frequently during the fiscal year as considered necessary by management to support Navy's financial reporting requirements.</p>	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Existence and Completeness – Q4 FY 2019	
Valuation – Q2 FY 2022 (date is contingent on the E&C priority being successfully remediated)	
CAP Milestones	Status

Existence and Completeness (E&C)	
NAVSUP N4 to update P-723, "Navy Inventory Integrity Procedures," with statistical sampling approach.	Completed
NAVSUP N4 communicate approach to all custodians of NWCF-SM Inventory.	Completed
NAVSUP N4 to validate implementation of approach by oversight testing conducted throughout the fiscal year.	Q4 FY 2019
Establish Existence and Completeness.	Q4 FY 2019
Valuation	
Completed required directed review on the ability to prove document availability of the cost for the top 1500 Navy Working Capital Fund – Supply Management (NWCF-SM) National Item Identification Numbers (NIIN).	Completed
Root cause analysis was performed working with ASN (FM&C), IV&V coach, and NAVSUP audit coach to determine that the Navy's ability to accurately calculate inventory values in Navy ERP using MAC will take a considerable amount of time, due to the system changes required to perform the calculations. Use of an automated environment external to Navy ERP to calculate MAC is unrealistic due to the frequency of required updates associated with recalculating MAC subsequent to each transaction. Based on prepared white paper, parties involved agreed to implement a WAC methodology due to the fact that WAC can be calculated periodically, external to ERP, which allows the Navy considerable flexibility over the use of a MAC valuation process.	Completed
Deem cost.	Q4 FY 2020*
Sustain WAC valuation offline.	Q1 FY 2021*
Sustain WAC valuation in ERP.	Q1 FY 2022*
Perform an independent validation of the material weakness remediation.	Q2 FY 2022*

*Date is contingent on the E&C priority being successfully remediated

Title of Material Weakness	
Operating Materials and Supplies (OM&S) (ICOFR-19-MW)	
Description of Material Weakness	
<p>The Department of the Navy (DON) is not able to generate a transaction-level population to support the Operating Materials and Supplies – Remainder (OM&S-R) balance, reported as a part of the OM&S balances in the Navy’s financial statements. Additionally, the Navy does not have a documented process to record OM&S balances and reconcile them to the source systems.</p> <p>Naval Air Systems Command (NAVAIR) was not properly classifying and reporting its Operating Materials and Supplies (OM&S) in accordance with Federal accounting standards. Annual physical inventories were not being performed and/or capturing all OM&S on hand. Internal controls over OM&S were not operating effectively, and NAVAIR has not implemented a Property Governance Council (PGC) structure for OM&S. As a result, NAVAIR was unable to accurately report OM&S in the financial statements.</p> <p>The Navy cannot demonstrate the ability to consistently perform and document annual physical inventories of Operating Materials and Supplies – Remainder (OM&S-R) and maintain clear audit trails to permit the tracing of transactions from source documentation to comply with established policy requiring source documentation for the reported OM&S-R dollar values.</p>	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
OM&S-NAVSEA – Q4 FY 2024 OM&S-NAVAIR – Q4 FY 2020 OM&S-FMO – Q4 FY 2020	
CAP Milestones	Status
OM&S-NAVSEA	
Identified and reviewed applicable generally accepted accounting principles (GAAP) guidance, federal policies, and other existing Navy and NAVSEA authoritative guidance governing OM&S-R.	Completed
Explored the use of the purchase method for OM&S-R. Any use of the purchase method cannot adversely impact accountability functionality in Navy ERP.	Completed
Developed a Plan of Action and Milestones (POA&M) detailing corrective action implementation activities.	Completed
Established accountability personnel for management of OM&S-R.	Completed
Assessed the ability of the APSR to produce reliable asset listings reconcilable to the financial statements.	Completed
Identified deficiencies with Navy ERP and escalated for assistance with resolutions.	Completed
For those locations not able to achieve the requisite inventory accuracy in a reasonable timeframe, a 100% wall-to-wall inventory will be conducted based upon resource availability.	Q2 FY 2019
Identify deficiencies with the Navy ERP in moving average cost (MAC) calculations and escalate for assistance with resolutions.	Q1 FY 2020
Conduct existence and completeness (E&C) testing at all locations to ensure requisite inventory accuracy is achieved and maintained. Based on testing results, develop location-specific CAPs and remediation plans.	Q1 FY 2020

NAVSEA locations that hold OM&S-R will dispose of all excess, obsolete and unserviceable (EOU) OM&S-R that meets one of the following conditions: a) All OM&S categorized as excess. b) OM&S that has not had a single demand in Navy ERP in over 24 months and does not have a specific justification maintained on file to hold for future. c) OM&S that does not have an identifiable sponsor/owner in Navy ERP or after a reasonable amount of effort to identify a sponsor one cannot be determined. d) OM&S that is not maintained and accountable within Navy ERP unless an approved APSR waiver is on file.	Q2 FY 2020
Identify all locations (Program Executive Office (PEO), Program Management Offices (PMO), deputy program managers (DPM), general fund (GF), and working capital fund (WCF) sites, contractor-owned and operated warehouse and storage facilities) that hold OM&S-R. Develop and execute risk-based discovery procedures to provide reasonable assurance all locations where OM&S-R is located are identified and included in the NAVSEA OM&S-R universe.	Q2 FY 2020
Determine and document the extent of OM&S-R stocks being managed or held “off-book” (e.g. on a non-approved legacy system or other material management tool). a) In conjunction with the actions in 5) above, identify all sites holding or managing NAVSEA-owned OM&S-R. b) Perform analysis of OM&S-R management to determine if the site is meeting Financial Improvement and Audit Readiness (FIAR) standards and achieving logistics performance standards (e.g. inventory accuracy).	Q2 FY 2020
Migrate OM&S-R from all legacy systems into Navy ERP per NAVSEA Memo 4400 Ser 04-273/319 dated 6 September 2012.	Q3 FY 2024
Review OM&S-R audit assertion packages and provide detailed feedback on adequacy and quality of packages.	Q3 FY 2024
Ensure all NAVSEA OM&S-R is accounted for and managed in Navy ERP as the accounting system of record (ASR) and the accountable property system of record (APSR).	Q3 FY 2024
Upon completion of all E&C activities, develop procedures for the valuation of OM&S-Remainder assets in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 48, subject to FMO and IV&V approval.	Q3 FY 2024
Review NAVSEA OM&S-R valuation procedures to ensure compliance with the overall DON approach.	Q3 FY 2024
Upon completion of IV&V-approved OM&S-R valuation in accordance with SFFAS 48, develop and implement sustainment financial accounting and accountability processes in compliance with SFFAS 3.	Q3 FY 2024
Draft position papers, policy and/or procedures when a need for such products is identified.	Q3 FY 2024
Review position papers, policy and procedures products to ensure compliance with overall DON approach.	Q3 FY 2024
Complete an independent validation of the material weakness (MW) remediation.	Q4 FY 2024
OM&S-NAVAIR	
Refined the OM&S logistic and financial reporting and semi-annual certification.	Completed
Modified and synchronized the NAVAIR “Buy it Right” business process to include additional OM&S acquisition types and created business rules for OM&S to	Completed

guide procurement personnel through the appropriate business process for initial accountability.	
Provided Inventory Management and Warehouse Management module training.	Completed
Initiated the appointment of Deputy Command Property Officers (DCPO) and Accountable Property Officers (APO) to support the establishment of NAVAIR's Property Governance Council (PGC) structure.	Completed
OM&S Uninstalled Aircraft Engine (UAE) Baseline E&C. 5a. Develop procedures for Aerospace Maintenance and Regeneration Group (AMARG) inventory. 5b. Develop white paper for physical inventory alternate solutions to 100% physical inventory. 5c. IV&V review and approval for way forward (repeat 100% or use alternative). 5d. Revise/update physical inventory procedures (UAE physical inventory plan). 5e. Define engine/module asset master universe. 5f. Execute alternate inventory procedures and roll forward. 5g. Consolidate inventory results. 5h. Develop process cycle memoranda (PCM).	Completed
OM&S UAE Baseline and Go Forward Valuation. 7a. Develop methodology and prepare White Paper (deemed and historical cost). 7b. IV&V review and approval. 7c. Implement methodology. 7d. Update PCM (to include financial reporting procedures).	Completed
OM&S UAE In-Transit Valuation. 8a. Perform analysis between title transfer and entry into DECKPLATE Engine Transaction Report. 8b. Develop white paper. 8c. IV&V review and approval and recommendations. 8d. Implement corrective actions (i.e. changed process or train existing process).	Completed
OM&S UAE devaluation of Not Ready for Issue (NRFI) engines (baseline). 9a. Develop methodology and prepare white paper (devaluation factor). 9b. IV&V review and approval. 9c. Implement methodology.	Completed
OM&S UAE devaluation of NRFI engines (go forward). 10a. Discovery of engine repair process in capturing costs. 10b. Develop methodology and prepare white paper (devaluation factor). 10c. IV&V review and approval. 10d. Implement methodology.	Completed
OM&S Remainder Baseline E&C (reported universe). 11a. Define asset universe (quarterly asset listings of reported assets). 11b. Impartial Verification and Validation (IV&V) document position on inventory requirements (i.e. 100% or triennial). 11c. Document physical inventory procedures (stakeholders and tools) in accordance with IV&V position. 11d. IV&V review and recommendations. 11e. Execute baseline inventory procedures and retain key supporting documents (KSD). 11f. Consolidate inventory results. 11g. Publish results and lessons learned.	Q1 FY 2019

11h. IV&V review and recommendations.	
OM&S Uninstalled Aircraft Engine (UAE) Go Forward E&C. 6a. Develop sustainment plan (alternative inventory methodology). 6b. IV&V review and recommendations. 6c. Execute inventory procedures.	Q1 FY 2019
OM&S Remainder Baseline/Go Forward Valuation. 14a. Document Navy baseline and go forward valuation methodology (i.e. deemed cost and historical cost/moving average cost value). 14b. IV&V review and recommendations. 14c. Develop NAVAIR Implementation Plan for Navy Valuation Methodology. 14d. IV&V review and recommendations. 14e. Implement valuation methodology. 14f. Develop/update process documentation.	Q1 FY 2019
OM&S Remainder Go Forward E&C. 13a. Develop/issue/align policies for OM&S Inventory (i.e. SECNAVINST 4140, SECNAVINST 4440.33A). 13b. Document sustainment plan (in accordance with outcomes of develop/issue/align policies for OM&S inventory task). 13c. IV&V review and recommendations. 13d. Execute inventory procedures and retain KSDs. 13e. Develop/update process documentation.	Q1 FY 2020
OM&S Remainder Baseline E&C discovery. 12a. Perform NAVAIR Headquarters (HQ) OM&S discovery. 12b. Perform Warfare Center OM&S discovery. 12c. Convert OM&S-R to APSR.	Q4 FY 2020
OM&S-FMO	
Completed each BSOs consumption versus purchase method accounting requirement determination.	Completed
Completed OM&S risk-based discovery procedures for identifying all locations where OM&S-R is held.	Completed
Completed baseline BSO physical inventories and any required count adjustments.	Completed
Developed, document and implement “go-forward” physical inventory procedures.	Completed
Complete property management system’s MAC functional compliance assessment.	Completed
Develop alternative valuation methodology for systems with MAC non-conformance.	Q1 FY 2019
Complete physical inventories of all locations identified using risk-based discovery procedures	Q2 FY 2019
Develop OM&S-R SFFAS 48 compliant deemed-cost approach.	Q2 FY 2019
Validate existence and availability of KSDs required to execute opening balance deemed cost valuation.	Q2 FY 2019
Implement alternative valuation methodology for systems with MAC non-conformance.	Q2 FY 2019
Complete solution identification and corrective action plan (CAP) development for property management systems with MAC non-conformance.	Q2 FY 2019
Complete validation of budget submitting office (BSO) compliance with 98% existence and completeness inventory accuracy threshold.	Q4 FY 2019
Complete implementation of property management system MAC non-conformance CAPs.	Q4 FY 2019

Complete BSO application of deemed-cost approach to establish baseline valuation balance.	Q2 FY 2020
Develop, document and implement “go-forward” OM&S-R valuation sustainment procedures.	Q2 FY 2020
The Impartial Verification and Validation (IV&V) Validation of E&C and Valuation.	Q4 FY 2020

Title of Material Weakness	
Accounts Payable (A/P) Accrual Methodology (ICOFR-26-MW)	
Description of Material Weakness	
Navy is not able to generate a transactional level population to support the reported Accounts Payable (A/P) balance at fiscal year-end. Additionally, Navy does not have a process to record an estimated liability for goods and services incurred but not yet invoiced by the vendor. Analysis indicates A/P may be materially understated.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q2 FY 2019	
CAP Milestones	Status
Developed A/P Accrual Methodology Strategy utilizing generally accepted accounting principles compliance to perform a look-back analysis.	Completed
In coordination with a statistician, selected a statistical sample from Defense Cash Accountability System (DCAS) cash disbursements with appropriate confidence level over the selected periods, Q1 FY 2016-Q1 FY 2017 (10/01/15-12/31/16).	
Finalized A/P scoping document.	Completed
Received final statistical sample.	Completed
Released statistical samples to budget submitting offices (BSO) to commence A/P testing allocated by 11 waves.	Completed
Performed A/P sample test work: selected samples are provided to the stakeholders to test that the transactions within the balance sheet have sufficient audit support documentation. Stakeholders provide key supporting documentation (KSD) that documents the transaction that ties to the appropriate United States Standard General Ledger (USSGL).	Completed
Finalized A/P sample test work and consolidated results for the next phase, development of the estimation model, aggregating results from look-back analysis to develop a predictive analysis to estimate the FY 2017 general fund (GF) year-end balance.	Completed
Finalized predictive estimation model to apply an accrual estimate.	Completed
Recorded A/P GF with the Public estimate accrual.	Completed
Finalized A/P GF with the Public Methodology document.	Completed
Completed FY 2018 lookback analysis testing and accrual model precision assessment. If necessary, make adjustments to the accrual model. <ul style="list-style-type: none"> • Scoped DCAS data and provided to statistician for sample selection. • Released samples to BSOs and the Defense Finance and Accounting Service (DFAS) in waves. • Obtained KSD support and performed testing procedures. • Finalized and consolidated testing results and provided to statistician for evaluation. • Worked with statistician to determine precision of Q4 FY 2017 GF A/P Public accrual recorded. • Determined if adjustments are needed to the methodology. • Documented results of FY 2018 lookback analysis. 	Completed

Record the Q4 FY 2018 A/P GF with the Public estimate accrual.	Q1 FY 2019
Document policies and procedures over the GF A/P with the Public accrual estimation process.	Q1 FY 2019
Complete an independent validation of the material weakness remediation.	Q2 FY 2019

Title of Material Weakness	
Individuals without properly documented authority are approving purchase requests, purchase orders, and certifying invoices for payment (ICOFR-5-MW)	
Description of Material Weakness	
The Navy's controls over approving and/or authorizing purchase transactions are not designed or operating effectively. Additionally, controls around receipt and acceptance, detection and correction of improper payments, and documentation retention need to be evaluated.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q2 FY 2020	
CAP Milestones	Status
Issued Reimbursable Work Order (RWO) Financial Policies Letter 4-16 directing commands to follow and improve processes, where needed, to support the Department's audit efforts. The policy references revised processes to review billings for intra-governmental delivered orders and guidance to properly and consistently document receipt and acceptance procedures. This memorandum also establishes policies associated with future implementation of G-Invoicing.	Completed
Document current processes related to receipt & acceptance and outlays & invoicing for each budget submitting office (BSO) accounting system.	Q1 FY 2019
Perform gap analysis to address audit requirements for receipt and acceptance, invoice certification, and review of payments. Coordinate on RWO activities during gap analysis.	Q1 FY 2019
Design and document risk-based receipt and acceptance procedures for Military Standard Requisitioning and Issue Procedures (MILSTRIP) processes in accordance with audit requirements. Develop receipt and acceptance controls, as feasible for Contract/Vendor Pay (CVP) and Transportation of Things (ToT). Develop manual workarounds to address system limitations as needed. Consider system change requests that may be required to address system limitations. If necessary, re-engineer process flows to standardize procedures across BSOs where possible.	Q2 FY 2019
Obtain a decision from BSOs and Navy leadership on proposed changes to business process documentation to be incorporated by the Business Process Improvement (BPI) team through a quarterly release of Navy Enterprise Resource Planning (ERP) and legacy documentation.	Q2 FY 2019
Confirm updates to procedures are feasibly executable and sustainable at the command level. Review commands' procedures regarding document retention reviews and sample transactions to ensure compliance with document retention standards.	Q3 FY 2019
Develop and conduct training for applicable stakeholders on the following: 1. Navy's document retention requirements and key supporting documentation (KSD) matrix; 2. What constitutes KSD for receipt and acceptance, invoices, and outlays; 3. What constitutes complete supporting documentation evidencing reconciliation of the transactional detail recorded in the general ledger (GL) system; and 4. Procedures to provide supporting documentation in a timely manner.	Q3 FY 2019
Implement change requests to Navy business process documentation.	Q4 FY 2019

Update standard operating procedure(s) to reflect controls for the proper approval and certification of payments and receipt and acceptance of delivered orders. Coordinate to ensure updates to processes and control points are captured in process cycle memoranda (PCM) and the KSD matrix, respectively.	Q4 FY 2019
Conduct enterprise-wide guidance and training on the following: 1. MILSTRIP, CVP, and ToT receipt and acceptance controls; 2. Updated KSD matrix documents; 3. What constitutes KSD; 4. What constitutes complete supporting documentation that reconciles to the transactional detail recorded in the GL system; 5. Navy's document retention policies; and 6. Proper approval and certification of payments for applicable stakeholders.	Q4 FY 2019
Commands to perform testing and collect evidentiary artifacts for three consecutive testing periods as reasonable assurance controls are in place and working effectively based on test plans provided. Commands to report findings upon request.	Q2 FY 2020

Title of Material Weakness	
Obligations are not timely recorded in the General Ledger (GL) (ICOFR-6-MW)	
Description of Material Weakness	
A lack of controls exists across multiple general ledger (GL) and contracting systems which cause delays in recording obligations in the proper accounting period following the obligation activity.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q2 FY 2020	
CAP Milestone	Status
Issued Reimbursable Work Order Financial Policies Letter 4-16 directing commands to follow and improve processes, where needed, to support the Department's audit efforts. The policy references revised processes to review billings for intra-governmental delivered orders and guidance to properly and consistently document receipt and acceptance procedures. This memorandum also establishes policies associated with future implementation of G-Invoicing.	Completed
Document current obligation and deobligation process flows for each budget submitting office (BSO) accounting system, including supply systems.	Q1 FY 2019
Perform gap analysis on the obligation process to address audit requirements for approval and timely recording of obligation transactions.	Q1 FY 2019
Develop controls and related procedures to remediate authorization of Military Standard Requisitioning and Issue Procedures (MILSTRIP) obligations. Develop compensating controls to ensure obligations are properly authorized in instances where system authorizations cannot be relied upon. Consider system change requests that may be required to address system limitations. If necessary, re-engineer process flows to standardize procedures across BSOs where possible.	Q2 FY 2019
Develop and document authorization procedures and controls over obligations. Develop compensating controls to ensure obligations are properly authorized in instances where system authorizations cannot be relied upon. If necessary, re-engineer process flows to standardize procedures across BSOs	Q2 FY 2019
Develop controls over recording obligations in a timely manner in accordance with Financial Management Regulation Volume 3, Chapter 8. If necessary, re-engineer process flows to standardize procedures across BSOs where possible.	Q2 FY 2019
Obtain a decision from BSOs and Navy leadership on proposed changes to business process documentation to be incorporated by the Business Process Improvement (BPI) team through a quarterly release of Navy Enterprise Resource Planning (ERP) and legacy documentation.	Q2 FY 2019
Confirm updates to procedures are feasibly executable and those updates to procedures will be sustainable at the command level. Review commands' procedures regarding document retention reviews and spot checks to ensure compliance with document retention requirements.	Q3 FY 2019
Implement change requests to Navy business process documentation.	Q4 FY 2019
Revise standard operating procedures or process flows and the Office of Financial Operations' (FMO) Key Supporting Document (KSD) Guide to reflect new KSD and revised processes related to obligations.	Q4 FY 2019

Coordinate to ensure updates to processes and control points are captured in process cycle memoranda and the KSD matrix, respectively. Additionally, develop and disseminate test plans to BSOs.	Q4 FY 2019
Commands to perform testing and collect evidentiary artifacts for three consecutive testing periods as reasonable assurance controls are in place and working effectively based on test plans provided. Commands to report findings upon request.	Q2 FY 2020

Title of Material Weakness	
The DoD does not have a centralized process to maintain, store, and retrieve transportation documentation (ICOFR-9-MW)	
Description of Material Weakness	
The Department of Defense (DoD) does not have a centralized process to maintain, store, and retrieve transportation documentation required to support Transportation of Things (ToT) transactions, management evaluation, and future examination/audits. The DON has been unable to provide a reliable and sustainable process to maintain, store, and retrieve transportation documentation.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q1 FY 2019	
CAP Milestones	Status
Disseminated “personal for” (P4) message from Director, Navy Staff to all flag officers in April 2016 to bring their attention to the requirements of NAVADMIN 066/16, Navy Audit Document Retention Guidance, and to emphasize the importance of meeting audit documentation requirements within their commands.	Completed
Designed nine key supporting document (KSD) libraries representing each Office of the Secretary of Defense- Transportation Financial Auditability (OSD-TFA) stakeholder.	Completed
Designed a unified KSD upload process for each OSD-TFA stakeholder.	Completed
Designed a unified Audit Request & Submittal process to be used by each OSD-TFA stakeholder.	Completed
Designed a unified KSD Upload Tracking Report to be used by each OSD-TFA stakeholder.	Completed
Designed one financial system integration for one of the OSD-TFA representatives.	Completed
Build nine KSD libraries representing each OSD-TFA stakeholder.	Q1 FY 2019
Build a unified KSD upload process for each OSD-TFA stakeholder.	Q1 FY 2019
Build a unified Audit Request & Submittal process to be used by each OSD-TFA stakeholder.	Q1 FY 2019
Provide an Analysis and Compatibility Assessment Report of the consolidated DoD transportation transactional process.	Q1 FY 2019

Title of Material Weakness	
Ineffective Controls over Statement of Budgetary Resources (SBR) Balances (ICOFR-24-MW)	
Description of Material Weakness	
The Department of the Navy (DON) has incurred multiple audits and assessments over its commitment, obligation/de-obligation, undelivered order (UDO), and unfilled customer order (UFCO) balances. The result of these reviews has identified instances where invalid or dormant balances have been reported on the DON's financial statements and are tied to multiple findings and recommendations. The aggregate result of these findings represents a significant risk of material misstatement on the financial statements.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay	
Targeted Correction Date	
Q4 FY 2020	
CAP Milestones	Status
Participated in contract closeout efforts to influence improvements to support DON's contract closeout procedures and accurately recorded balances.	Completed
Processes and/or procedures that support write-off of balances beyond Defense Contract Audit Agency (DCAA) contract audit maximum liability.	Completed
Developed policies and/or procedures for working capital fund (WCF) activities to write off UFCO balances for grantor appropriations that have cancelled.	Completed
Implemented new policy and/or procedures for WCF activities to write off unfilled customer order balances for grantor appropriations that have cancelled and developed metrics to test effectiveness of policy or procedure implementation.	Completed
Obtained Defense Finance and Accounting Service – Columbus (DFAS-CO) populations of Defense Contract Management Agency (DCMA) contract closeout backlog to identify opportunities to support funds management reviews or support write off of dormant balances.	Completed
Utilized population of contract closeout backlog items to facilitate conversations with DCAA to identify maximum liability of contracts based upon DCAA contract audit.	Completed
Utilized understanding of underlying contract liabilities to submit Memorandum for Closure.	Completed
Identified and analyzed current Department of Defense (DoD) or DON policies and procedural documentation related to the Reimbursable Work Order (RWO) process.	Completed
Reviewed existing RWO Business Process Improvement (BPI) documentation to obtain an understanding and identify gaps in existing key controls within the RWO end-to-end process.	Completed
Policies and/or procedures for WCF activities to write off UFCO balances for grantor appropriations that have cancelled.	Completed
Aggregated issues identified in control matrices from RWO process listed above and develop a corrective action plan (CAP) to address the findings.	Completed
Monitored metrics to identify effectiveness of policy or procedures for WCF activities to write off UFCO balances for grantor appropriations that have cancelled.	Completed

Reviewed existing CVP BPI documentation to obtain an understanding and identify gaps in existing key controls within the Contract/Vendor Pay (CVP) end-to-end process.	Completed
Improvement to DON RWO policy or procedures to support the de-obligation of dormant RWO balances.	Completed
NFR 2016-0004-FIN Controls over Contractor and Vendor Pay do not assure that obligations are recorded timely.	Completed
Reviewed existing Civilian Pay (CIVPAY) BPI documentation to obtain an understanding and identify gaps in existing key controls within the CIVPAY end-to-end process.	Completed
NFR 2015-0021-FIN – Unfilled Customer Orders are Not Valid.	Q1 FY 2019
Identify and analyze current DoD or DON policies and procedural documentation related to the CIVPAY process.	Q2 FY 2019
NFR 2015-0029-FIN – Controls over Obligations Need Improvement.	Q1 FY 2019
Aggregate issues identified in control matrices from the CIVPAY process listed above and develop a CAP to address the findings.	Q2 FY 2019
Identify and analyze current DoD or DON policies and procedural documentation related to the CVP process.	Q2 FY 2019
Aggregate issues identified in control matrices from CVP process listed above and develop a CAP to address the finding.	Q3 FY 2019
Identify and analyze current DoD or DON policies and procedural documentation related to the Military Pay (MILPAY) process.	Q3 FY 2019
Review of existing MILPAY BPI documentation to obtain an understanding and identify gaps in existing key controls within the MILPAY end-to-end process.	Q3 FY 2019
Aggregate issues identified in control matrices from MILPAY process listed above and develop a CAP to address the findings.	Q4 FY 2019
Review existing BPI documentation to obtain an understanding and identify gaps in existing key controls within the end-to-end processes impacting commitment, obligation/de-obligation, UDO, and UFCO balances.	Q4 FY 2019
Review of existing Military Standard Requisitioning and Issue Procedures (MILSTRIP) BPI documentation to obtain an understanding and identify gaps in existing key controls within the MILSTRIP end-to-end process.	Q4 FY 2019
Conduct analysis of DoD and/or DON current policies and procedural documentation regarding commitment, obligation/de-obligation, UDO, and UFCO balances.	Q1 FY 2020
Identify and analyze current DoD or DON policies and procedural documentation related to the MILSTRIP process.	Q1 FY 2020
Aggregate issues identified in control matrices from MILSTRIP process listed above and develop a CAP to address the findings.	Q2 FY 2020
Based on discovery efforts outlined in steps above, identify control gaps, inefficiencies, or instances of noncompliance with generally accepted accounting principles and develop specific remediation milestones to address the gaps. Milestones may include development and implementation of policies and procedures, updates to BPI documentation, and compliance testing.	Q2 FY 2020
ICOFR-6 – Obligations are not timely recorded in the general ledger.	Q2 FY 2020
Complete an independent validation of the material weakness (MW) remediation.	Q3 FY 2020
ICOFR-14 – The Reimbursable Work Order – Grantor/Performer processes lack controls.	Q4 FY 2020

Title of Material Weakness	
Shared Service Provider (SSP) Oversight (ICOFR-3-MW)	
Description of Material Weakness	
The DON has not established sufficient procedures to provide oversight of the third-party shared service providers (SSP) that process, store, or transmit Navy financial data. The Navy does not have a comprehensive set of governance and oversight agreements. It lacks service level agreements (SLA), memoranda of understanding (MOU), or other documents to clearly outline roles and responsibilities of the Navy and its service providers with respect to controls over processes performed. The Navy does not have a process to ensure Complementary User Entity Controls (CUEC) are documented and tested.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	Status
Completed inclusion of 32 process-level CUECs into the Navy Business Process Standards to demonstrate the existence and operation of process-level CUECs at the budget submitting office (BSO) level.	Completed
Completed issuance of DON general information technology controls (GITC) CUECs Guidebooks to BSOs to assist with local implementation of DON policy.	Completed
Finalized FY 2016 Service Organization Controls (SOC) 1 Report Evaluations and attained signature approvals. SOC1 Report Evaluations demonstrate the Navy's assessment of its internal control environment and the impact of third-party deficiencies to the Navy's data. BSOs developed GITC CUEC designs to adhere to DON policies at the BSO level.	Completed
BSOs completed development of GITC CUEC designs that adhere to DON policy at the BSO level.	Completed
BSOs implemented newly designed policies and procedures at the BSO level that adhere to the DON policy for GITC CUECs described in the guidebooks.	Completed
Developed methodology to test the operating effectiveness of Navy-owned key controls and ensure performance of controls is in accordance with Navy Business Process Standards. This step requires implementing pilot testing for business segments Civilian Pay (CIVPAY) and Transportation of People (ToP) at BSOs using legacy and Enterprise Resource Planning (ERP) systems.	Completed
Developed SLAs with the following material SSPs: <ul style="list-style-type: none"> • Defense Finance and Accounting Service (DFAS); • Defense Logistics Agency (DLA); • Defense Manpower Data Center (DMDC); • Defense Contract Management Agency (DCMA); and • U.S. Bancorp. 	Completed
Confirmed materiality analyses that determine the systems in scope in FY 2018 for the non-SOC1 risk assessment efforts (in preparation for full financial statement audit). Systems determined by the independent public accountant during entrance conference briefing.	Completed

Reviewed testing results for reliability and effectiveness of key controls within the business process segment.	Completed
Executed test plans to assess the operating effectiveness of Navy-owned key controls and ensure performance of controls is in accordance with Navy Business Process Standards.	Completed
BSOs executed initial performance of independent BSO testing to validate operating effectiveness of GITC CUECs.	Completed
Required coordination with the SSP points of contact for review and negotiation of SLA content and language regarding roles and responsibilities for controls over processes performed. The finalized SLAs will be routed to attain the appropriate signatures at the Navy and the respective SSP.	Completed
Conducted CUEC Crosswalk and Recommendations analyses on process-level CUECs identified in FY 2015 and FY 2016 (baseline) and FY 2017 SOC1 reports and adjudicate and implement process-level CUECs that are not aligned to Navy Business Process Standards.	Completed
BSOs implemented test plans to evaluate the operating effectiveness of Navy owned key controls and ensure performance in accordance with Navy Business Process Standards.	Completed
BSOs submit test plans and evaluation results for analysis and review to provide internal control remediation advice and support.	Q2 FY 2019
Complete an independent validation of the material weakness remediation.	Q4 FY 2019

Title of Material Weakness	
Reimbursable Work Order (RWO) Controls (ICOFR-14-MW)	
Description of Material Weakness	
The Reimbursable Work Order – Grantor/Performer (RWO-G/P) process lacks effective controls. The Navy’s control environment is not designed and/or operating effectively to verify or validate RWO-G/P transactions when authorized, approved, and are not properly posting, accurate, and/or complete. There is a potential audit risk that the Navy’s financial statements do not accurately account for undelivered orders, accounts receivables, or year-end accruals, which could result in invalid and/or unauthorized transactions. In addition, the audit risk extends to the potential for over/understated financial statements for the upcoming full financial statement audit.	
Internal Control Reporting Category	
Budget-to-Report, Order-to-Cash, Procure-to-Pay	
Targeted Correction Date	
Q3 FY 2022	
CAP Milestones	Status
Phase 1 – RWO Policy, Budget Reform, and G-Invoicing Implementation for General Terms and Conditions (GT&C)	
Policy Memorandum 4-16, “Reimbursable Work Order Financial Policy”, was published/released on 9/27/2016. Implementation was accomplished during the remainder of Calendar Year 2016. Validation testing has been suspended pending a newly commissioned effort to further define the process, to include Level 3 trade financial reporting/accounting and its effect on G-Invoicing.	Completed
Formed a study group to perform Reimbursable Work Order (RWO) process assessment at Naval Air Systems Command and Naval Sea Systems Command to understand the gaps and challenges in RWO policy compliance and identify possible solutions. Results of the process assessment will be used to develop both manual and system solutions to help commands meet policy requirements.	Completed
Published joint Assistant Secretary of the Navy (Financial Management and Comptroller) and Assistant Secretary of the Navy (Research, Development, and Acquisition) RWO policy implementation memo on 12/4/2017 for Navy Enterprise Resource Planning (ERP) Systems Commands (SYSCOM) to emphasize the importance of policy compliance and require SYSCOM participation in the RWO Policy pilot to help validate policy requirements.	Completed
Published Department of Navy Budget Reform memos to emphasize the importance of budgeting funding at the point of execution and specific Office of Budget (FMB)'s responsibilities of realigning funding through Program Budget Information System (PBIS) as well as managing exceptions. Under the budget reform, budget submitting offices (BSO) will no longer be permitted to conduct level 3 General Fund (GF) to GF RWO transactions for operations and maintenance – Navy (O&M) or operations and maintenance – Naval Reserve (O&MR) efforts unless specifically approved by FMB. The memos also mentioned the General Ledger (GL) system consolidation and BSOs consolidation efforts that aim to improve transparency and effective execution of funding.	Completed

Kickoff and plan for Intra-Governmental Payment and Collection (IPAC) "Push" Pilot for selected level 1 RWO transactions between DON and U.S. Coast Guard. The IPAC "Push" effort requires Grantors to authorize and release payments to Performers after reviewing required documentation related to the transaction instead of allowing Performers to pull the money. The intension is to enhance controls around receipt and acceptance and invoicing payments.	Completed
Utilize PBIS to centrally manage and realign budget to the point of execution to reduce RWO transactions, achieve streamlined process and improve accounting transparency.	Completed
Consolidate the Naval Facilities Engineering Command and the Command Naval Installations Command to streamline support structure and process.	Completed
Consolidate Department of the Navy Assistant for Administration and FMB7 to oversee the Navy Secretariat Program Objective Memorandum, Budget Formulation and Budget Execution functions.	Completed
Realign funding during the fiscal year (FY) 2020 DON Budget Review and during all subsequent review for midyear to reduce reliance on RWOs.	Completed
Conducted RWO pilot for RWO processes, including receipt and acceptance (R&A), reconciliation and closeout (R&C), and GT&C. The pilot results will be used to develop Implementation Guidance which will help SYSCOMs better interpret the RWO policy requirements. The pilot results will also help to further refine the RWO policy requirements to make them more practical to the commands. The final implementation guidance will be published by the end of FY 2018.	Completed
Plan and conduct IPAC "Push" test for selected level 1 RWO transactions between DON and U.S. Coast Guard.	Q1 FY 2019
Request IPAC "Pull" to "Push" system change and develop standard GT&C to be used for all DON commands during the IPAC "Push" pilot.	Q1 FY 2019
Prepare and configure G-Invoicing with DON structure to implement G-Invoicing for creating and negotiating GT&Cs according to the Office of the Secretary of Defense mandate.	Q1 FY 2019
Deploy G-Invoicing for uploading and/or creating level 1 and 2 GT&Cs and provide admin and end user trainings to BSO personnel who will be managing user access at the BSO level going forward.	Q1 FY 2019
Collaborate with Defense Finance and Accounting Service (DFAS) to walkthrough and document end-to-end RWO billing process and controls for RWO transactions. Through the effort, DON will gain a better understanding of existing controls that are performed by DFAS and identify control gaps that are required to meet the RWO Policy and Audit requirements.	Q2 FY 2019
Conduct IPAC "Push" pilot with all DON commands and U.S. Coast Guard. Sustain and monitor pilot performance.	Q3 FY 2019
Provide user support to BSOs regarding user access management, uploading and/or creating GT&Cs in G-Invoicing.	Q4 FY 2019
Publish a DON policy and/or memo to expand the IPAC "Push" requirement to all DON's federal agency Trading Partners.	Q4 FY 2019
Identify alternative solutions to eliminate control gaps in the as-is RWO billing process and document to-be process with enhanced controls.	Q4 FY 2019
Phase 2 – RWO Business Process	
Develop, implement, and test DON command level RWO processes to achieve process standardization and RWO policy compliance.	Q2 FY 2021*

Phase 3 – RWO System Enhancements and Automation	
Establishment of the G-Invoicing/Global Exchange Service (GEX) interface.	Q4 FY 2021*
Accomplishment of DON systems interfacing with GEX, testing of interfaces, and data validation	Q1 FY 2022*
Full implementation of G-Invoicing to include GT&C, order, R&A invoice, reconciliation, and closeout.	Q2 FY 2022*
Perform an independent validation of the MW corrective action plan.	Q3 FY 2022*

*Dependent on a successful Phase 1 implementation

Title of Material Weakness	
Offline Military Standard Requisitioning and Issue Procedures (MILSTRIP) Requisitions (ICOFR-23-MW)	
Description of Material Weakness	
The Defense Logistics Agency (DLA) and the General Services Administration (GSA) have established off-line requisition systems to access and purchase catalogued or GSA schedule products. These systems do not include the necessary interfaces with the supply and financial automated systems; therefore, incomplete information has resulted in invalid accounting entries and Prompt Payment Act violations. (This issue is one of the causes relating to the weakness in timely recording of obligations.)	
Internal Control Reporting Category	
Procure-to-Pay, Plan-to-Stock	
Targeted Correction Date	
Q2 FY 2020	
CAP Milestones	Status
Developed and implemented policy and procedures to improve the recording of MILSTRIP and Government Commercial Purchase Card purchases in the Standard Accounting, Budgeting, and Reporting System (SABRS).	Completed
Implement the Fund Control Interface with DLA to ensure the DON meets requirements for Defense Logistics Management Standards (DLMS) on requisitioning and internal ordering.	Q4 FY 2019
Conduct SABRS Electronic Mall (EMALL)/Federal Mall (FEDMALL) testing to validate effectiveness of the Funds Control Interface.	Q2 FY 2020
Perform an independent validation of the material weakness remediation.	Q2 FY 2020

Material Weaknesses Corrected During the Period

Title of Material Weakness	
Military Sealift Command (MSC) liquidations and payments lack supporting receipt and acceptance documentation for the U.S. Marine Corps (USMC) (ICOFR-16-MW)	
Description of Material Weakness	
MSC liquidations and payments lack supporting receipt and acceptance documentation for USMC. Delivery confirmation documentation is not received from Defense Contract Management Agency (DCMA) as required.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q4 FY 2018	
CAP Milestones	Status
MSC provided signed invoice review billings to reconcile with liquidations.	Completed
MSC conducted a site visit to improve relationships with data providers and data gathering consistency.	Completed
Improved USMC and MSC collaboration to provide source documentation.	Completed
Completed an independent validation of the material weakness remediation.	Completed

Title of Material Weakness	
Visual Inter-Fund System Transaction (VISTA) Controls (ICOFR-21-MW)	
Description of Material Weakness	
Defense Finance and Accounting Service (DFAS) has insufficient controls in place to validate the effectiveness of VISTA system functionality for assigning a line of accounting (LOA) to inter-fund bills for Military Standard Requisitioning and Issue Procedures (MILSTRIP) obligations or disbursements on the general ledger (GL).	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q1 FY 2018	
CAP Milestones	Status
DFAS implements Business Process (BP) 2.2.1: Identified, logged and resolved processing errors.	Completed
DFAS implements BP 2.4.1: Transactions are valid and unique (not duplicated).	Completed
DFAS implements BP 3.3.1: System generated outputs/reports are reviewed to assure transaction integrity.	Completed
DFAS implements Interface (IN) 1.2.1: Interface validation and correction of errors.	Completed
DFAS internal validation of VISTA controls.	Completed
Gathered evidentiary documents of DFAS testing methodology and control test results. Validate the control implementation before identifying the deficiency as remediated	Completed
Impartial Verification and Validation (IV&V) Team performs validation of VISTA controls.	Completed

Title of Material Weakness	
The Navy's Beginning Balances are unsupported (ICOFR-7-MW)	
Description of Material Weakness	
Beginning balances are not fully supported by reconciled and detailed general ledger (GL) accounting entries. Detailed GL accounting entries recorded in the accounting systems are not 100% available or reliable for purposes of reconciling the Navy's beginning balances as of 1 October 2016 (FY 2017).	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q3 FY 2018	
CAP Milestones	Status
Issued a data call and obtained historical transactional data from all general fund (GF) and working capital fund (WCF) systems for transactions between 1 October 2012 and the end of FY 2015.	Completed
Obtained transactional data from all GF and WCF systems starting 1 October 2015 and established a monthly manual process to obtain the information monthly.	Completed
Performed a reconciliation of transactions GF FY 2013 and WCF FY 2106 through the present data, using reconciliation ending balances from Q4 FY 2016 to establish FY 2017 Beginning Balances.	Completed
Developed all Transaction Universe (TU) internal controls documentation (process flow, standard operating procedure (SOP), narrative, and control matrix).	Completed
Established a monthly process to obtain the transactional data for all GF and WCF systems.	Completed
Developed a repository to house historical and current GL details.	Completed
Produced GF and WCF GL details reconciliations to support FY 2017 Beginning Balance. These reconciliations included GL Details to Trial Balance, GL Details to Defense Department Reporting System – Budgetary (DDRS-B), and GL Details to DDRS-Audited Financial Systems (DDRS-AFS) (all data housed in repository).	Completed
Produced GF and WCF GL details reconciliations to support Q1 FY 2017 balance. These reconciliations included GL Details to Trial Balance, GL Details to DDRS-B, and GL Details to DDRS-AFS (all data housed in repository).	Completed
Documented the Department of the Navy “Look Back Strategy” to support the beginning balance produce reconciled historical GL details, including FY 2016 closing entries for the GF FY 2017 Beginning Balance Dataset supporting the Statement of Budgetary Resources (SBR) and balance sheet.	Completed
Produced GF and WCF GL details reconciliations to support Q2 FY 2017 balance. These reconciliations included GL Details to Trial Balance, GL Details to DDRS-B, and GL Details to DDRS-AFS (all data housed in repository).	Completed
Produced GF and WCF GL details reconciliations to support Q3 FY 2017 balance. These reconciliations included GL details to trial balance, GL details to DDRS-B, and GL details to DDRS-AFS (all data housed in repository).	Completed
Produced GF and WCF GL details reconciliations (GL account balance to transaction level details) to support Q4 FY 2017 balance. These reconciliations	Completed

included GL details to trial balance, GL details to DDRS-B, and GL details to DDRS-AFS (all data housed in repository).	
Completed the FY 2017 beginning balance and Q1-Q4 FY 2017 reconciliations demonstrates Navy's FY 2017 beginning balances are supported by GL details and a repeatable and sustainable process is now in place to maintain and support all Navy Financial Statements with GL details moving forward.	Completed
Impartial Verification and Validation (IV&V) Team completed an independent validation of the TU-produced reconciliations and audit artifacts for FY 2017 beginning balances, Q1, Q2, Q3, and Q4. This independent validation was completed in conjunction with their review of artifacts supporting the closure of NFR 2015-0002-FIN Single Point Transaction Universe.	Completed

Material Weaknesses Reassessed During the Period

Title of Material Weakness	
Transportation Account Codes (TAC) (ICOFR-8-MW)	
Description of Material Weakness	
<p>No effective controls are in place to prevent unauthorized use of transportation account codes (TAC) or unauthorized shipments from occurring. Transportation officers across the Department of Defense (DoD) do not have the capability to determine if the shipping requestor is authorized to use the TAC cited on the shipping document or validate that sufficient funds are available prior to releasing for shipment. Additionally, interfaces among transportation and financial systems do not support exchange of all required transactional data.</p> <p>Without adequate controls to ensure sufficient funds are available before initiating shipments and the requesting activity uses the correct TACs, there is a risk that shipments are initiated when sufficient funding is not available or is charged to the incorrect program. This may put the DON at risk of violating the Antideficiency Act (ADA).</p>	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q3 FY 2021 – Controls are in place to assure shipping requestor is using authorized TAC, and sufficient funds are available through reconciliation performed. Downgraded to a control deficiency, since TACs are not material to the DON.	
CAP Milestones	Status
Participated in Office of the Under Secretary of Defense (OUSD) Financial Improvement and Audit Readiness (FIAR) team-led working groups to determine and develop DoD-wide solutions and mitigating strategies for the material weakness (MW).	Completed
Began implementing the Cargo Movement Operations System (CMOS) to standardize systems and processes across the transportation community within the DON.	Completed
Signed a memorandum of agreement outlining interim solutions for services to retrieve and share key supporting documents across the DON.	Completed
Expanded CMOS implementation.	Completed
Reassessed the MW and the remaining remediation requirements.	Completed
Defined and socialized specific system requirements to implement TAC management internal controls with all applicable stakeholders within the Transportation Management System (TMS) enterprise.	Completed
Established a direct billing process for the Transportation Working Capital Fund payable transactions. As a result, DFAS will now bill Transportation Working Capital Fund transactions directly to the Navy TAC owner.	Completed
Implemented a solution for the Air Mobility Command billing and reconciliation process.	Completed
Implemented a solution for the Surface Deployment and Distribution Command billing and reconciliation process.	Completed
Researched and identified systems and platforms that can implement the approved controls.	Completed

Established a partnership with United States Transportation Command to participate in the ongoing TMS Prototype.	Completed
Collaborate with SAP to identify opportunities for capturing Transportation of Things (ToT) accounting events and develop internal controls in Navy Enterprise Resource Planning (ERP).	Q2 FY 2019
Work with Defense Logistics Agency to develop a key supporting documents repository to capture ToT documents for the Department of Defense enterprise.	Q2 FY 2019
Secure new funding for the development and/or required enhancements of a selected system or platform with a resource sponsor. Document necessary systems requirements and draft associated support agreements to identify enhancements needed to support proposed control points.	Q3 FY 2019
Begin development of a systematic internal controls solution/system.	Q4 FY 2019
Complete system testing, validation, and acceptance of the TMS system.	Q4 FY 2020
Issue official TAC management policies and provide stakeholder training on new business rules and procedures.	Q1 FY 2021
Perform an independent validation of remediation.	Q3 FY 2021

Financial Management Systems Material Weaknesses /Nonconformances

The following table lists the MWs/nonconformances in Internal Controls over Financial Systems (ICOFs) for FY 2018 and incorporates changes from the FY 2017 DON SOA.

Effectiveness of Internal Controls over Financial Systems (FMFIA Section 4 and FFMIA)					
Statement of Assurance: Controls are not in place to provide Reasonable Assurance					
Non-Conformances	FY 2018 Beginning Balance	New	Resolved	Reassessed	FY 2018 Ending Balance
Financial Management Systems	8	-	(3)	-	5
Total System Conformance Material Weaknesses	8	-	(3)	-	5

Uncorrected Material Weaknesses/Nonconformances Identified During Prior Periods					
Non-Conformances	Title of Material Weakness	First Year Reported	FY 2017 Targeted Correction Date	Revised Targeted Correction Date	Page #
Financial Management Systems	The Navy ERP system is not compliant with the Standard Financial Information Structure (SFIS)	FY 2015	Q4 FY 2019	Q4 FY 2019	99
Financial Management Systems	Standard Accounting and Reporting System-Field Level (STARS-FL) deficiencies including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues	FY 2015	Q4 FY 2025	Q4 FY 2025	100
Financial Management Systems	USMC Global Combat Support System (GCSS) Deficiencies	FY 2014	Q2 FY 2018	Q2 FY 2019	101
Financial Management Systems	STARS-FL has numerous deficiencies in the areas of SOD, reconciliation, pre-validation edit checks, and other internal controls	FY 2015	Q4 FY 2025	Q4 FY 2025	102
Financial Management Systems	The DoD Information Assurance Certification and Accreditation Process (DIACAP) failed to produce the audit ready control environment	FY 2015	Q4 FY 2019	Q3 FY 2021	103

Material Weaknesses Corrected During the Period			
Internal Control Reporting Category	Title of Material Weakness	Targeted Correction Year	Page #
Financial Management Systems	The Navy ERP system currently has numerous segregation of duties (SOD) deficiencies	Q4 FY 2018	104
Financial Management Systems	Financial System owners lack standardized and specific control criteria guidance	Q1 FY 2018	105
Financial Management Systems	DON lacks guidance and validation processes to resolve system FISCAM deficiencies	Q3 FY 2018	106

Uncorrected Material Weaknesses/Nonconformances Identified During Prior Periods

Title of Material Weakness	
The Navy ERP system is currently not compliant with the Standard Financial Information Structure (SFIS) (ICOFS-2-MW)	
Description of Material Weakness	
The Navy Enterprise Resource Planning (ERP) system is currently not compliant with the Standard Financial Information Structure (SFIS), which is updated regularly and part of the DoD Business Enterprise Architecture handling financial management.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	Status
Formulated phased approach for SFIS compliance in FY 2019 (Phase 1 and Phase 2) and modifications to improve sustainability (Phase 3). Workshop conducted with Office of Financial Operations (FMO), Financial Policy and Systems (FMP), and Navy ERP PMO (PMW220).	Completed
Navy ERP Governance authorized SFIS Phase 1 (Treasury Direct Disbursing (TDD)) for the FY 2018 Navy ERP Workplan.	Completed
Completed Navy ERP Technical Upgrade; 10 data elements implemented.	Completed
Navy ERP Governance authorized Phase 2 for Navy ERP FY 2019 Workplan.	Completed
Complete Phase 1 implementation (Treasury Direct Disbursing).	Q4 FY 2019
Complete Phase 2 implementation. Navy ERP is SFIS compliant.	Q4 FY 2019
Complete an independent validation of the material weakness remediation.	Q4 FY 2019

Title of Material Weakness	
Standard Accounting and Reporting System-Field Level (STARS-FL) deficiencies, including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues (ICOFS-4-MW)	
Description of Material Weakness	
STARS-FL deficiencies, including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2025	
CAP Milestones	Status
Assistant Secretary of the Navy (Financial Management and Comptroller) Memo directing STARS to Standard Accounting Budgeting Reporting System (SABRS) migration.	Completed
Deployment 1: One budget submitting office (BSO) goes live (Department of the Navy Assistant for Administration (DON/AA)).	Completed
Deployment 2: BSOs go live (Commander, Navy Installations Command (CNIC), Field Support Activity (FSA), and Naval Intelligence Agency (NIA)).	Completed
Deployment 3: BSOs go live (Naval Special Warfare Command (SPECWAR) and Bureau of Navy Personnel (BUPERS)).	Completed
Deployment 4: BSOs go live (U.S. Fleet Forces Command (FFC), U.S. Pacific Fleet (PACFLT), and Commander, Navy Reserve Force (RESFOR)).	Q1 FY 2019
BUMED begins transition from STARS to GFEBS (or other Defense Health Agency system to be determined).	Q1 FY 2019
Deployment 5: One BSO goes live (Navy Facilities Engineering Command (NAVFAC)).	Q1 FY 2020
Prior year business from the fiscal years before SABRS transition will continue to be conducted in STARS. As soon as possible a method of transitioning prior year business from STARS to SABRS will be designed and executed (if possible).	Q1 FY 2019 – Q4 FY 2024
STARS-FL will be shut down.	Q1 FY 2025
Complete an independent validation of the material weakness remediation	Q4 FY 2025

Title of Material Weakness	
USMC Global Combat Support System (GCSS) Deficiencies (ICOFS-5-MW)	
Description of Material Weakness	
The deficiencies for GCSS – Marine Corps (GCSS-MC) span across multiple control categories defined in the Government Accountability Office Federal Information System Controls Audit Manual (FISCAM), including application level general controls, access controls, system interfaces, and configuration management controls.	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q2 FY 2019	
CAP Milestones	Status
Communicated findings from GCSS-MC Program Management Office (PMO), Installations and Logistics (I&L), and Programs and Resources (P&R), and determined the actions to resolve each finding.	Completed
Published Finding (3.F) Follow the USMC Incident Response Policy (C4 document).	Completed
Scheduled Finding (3.H) Annual Contingency Plan Test for March 2015. Earliest 2015 evidence would be available after March.	Completed
Developed policies and procedures for reviewing application/database logs for identifying system alerts.	Completed
Implemented policy.	Completed
Developed Continuity of Operations Plan and SOD policy to guide operation and access/use of GCSS-MC.	Completed
Provided evidence of reviews and testing of documents supporting the system.	Completed
Developed procedures for reviewing system alerts.	Completed
Implemented password and account configuration settings to improve the security posture of the database.	Completed
Implemented Oracle 12 to improve internal controls over user access to the system.	Completed
Perform an independent validation of the material weakness remediation.	Q2 FY 2019

Title of Material Weakness	
Standard Accounting and Reporting System-Field Level (STARS-FL) has numerous deficiencies in the areas of segregation of duties (SOD), reconciliation, pre-validation edit checks, and other internal controls (ICOFS-6-MW)	
Description of Material Weakness	
STARS-FL has numerous deficiencies in the areas of SOD, reconciliation, pre-validation edit checks, and other internal controls.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2025	
CAP Milestones	Status
Assistant Secretary of the Navy (Financial Management and Comptroller) Memo directing STARS to Standard Accounting, Budgeting, and Reporting System (SABRS) migration.	Completed
Deployment 1: One budget submitting office (BSO) goes live (Department of the Navy Assistant for Administration (DON/AA)).	Completed
Deployment 2: BSOs go live (Commander, Navy Installations Command (CNIC), Field Support Activity (FSA), and Naval Intelligence Agency (NIA)).	Completed
Deployment 3: BSOs go live (Naval Special Warfare Command (SPECWAR) and Bureau of Navy Personnel (BUPERS)).	Completed
Deployment 4: BSOs go live (U.S. Fleet Forces Command (FFC), U.S. Pacific Fleet (PACFLT), and Commander, Navy Reserve Force (RESFOR)).	Q1 FY 2019
Navy Bureau of Medicine and Surgery (BUMED) begins transition from STARS to GFEBS (or other Defense Health Agency system to be determined).	Q1 FY 2019
Deployment 5: One BSO goes live (Navy Facilities Engineering Command (NAVFAC)).	Q1 FY 2020
Prior year business from the fiscal years before SABRS transition will continue to be conducted in STARS. As soon as possible a method of transitioning prior year business from STARS to SABRS will be designed and executed (if possible).	Q1 FY 2019 - Q4 FY 2024
STARS-FL will be shut down.	Q1 FY 2025
Complete an independent validation of the MW remediation.	Q4 FY 2025

Title of Material Weakness	
The Department of Defense (DoD) Information Assurance Accreditation and Certification Process (DIACAP) failed to produce the audit ready control environment (ICOFS-7-MW)	
Description of Material Weakness	
The DIACAP failed to produce the audit ready control environment as delineated in the National Institute of Standards and Technology Special Publications (NIST SP) and the Government Accountability Office (GAO) Federal Information System Controls Audit Manual (FISCAM).	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q3 FY 2021	
CAP Milestones	Status
Promulgated policy replacing DIACAP with Risk Management Framework (RMF)	Completed
Developed RMF Financial Management (FM) Overlay to compliment RMF	Completed
Completed a pilot system transition to RMF with FM Overlay	Completed
Complete RMF with FM Overlay transition for 25% of Level 1 and 2 Audit Relevant Systems	Q2 FY 2020
Complete RMF with FM Overlay transition for 50% of Level 1 and 2 Audit Relevant Systems	Q3 FY 2020
Complete RMF with FM Overlay transition for 75% of Level 1 and 2 Audit Relevant Systems	Q4 FY 2020
Complete RMF with FM Overlay transition for 100% of Level 1 and 2 Audit Relevant Systems	Q1 FY 2021
Perform an independent validation of the MW remediation.	Q3 FY 2021

Material Weaknesses Corrected During the Period

Title of Material Weakness	
The Navy ERP system currently has numerous segregation of duties (SOD) deficiencies (ICOFIS-1-MW)	
Description of Material Weakness	
The Navy Enterprise Resource Planning (ERP) system currently has segregation of duties (SOD) deficiencies, including incompatible roles, SOD matrix, periodic reviews, SOD conflicts, privileged users, policies and procedures documentation, and extensive permissions.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2018	
CAP Milestones	Status
Executed the automated user access review with Systems Commands (SYSCOM) support when available and the Service Providers.	Completed
Prototyped/executed SOD risk mitigation reports for all known SOD risks in preparation for the Commercial off-the-Shelf (COTS) SOD tool implementation, which is going to completely automate this process.	Completed
Implemented COTS SOD tool application to automate the risk mitigation strategy	Completed
Educated Navy ERP user population about SOD risks.	Completed
Deployed control monitoring by the system owner, Program Manager, Warfare (PMW) 220, which is part of the Program Executive Office for Enterprise Information System (PEO EIS), to insure proper execution of the use access reviews by the Navy ERP Command Business Offices and Service Providers.	Completed
Deployed an automated daily account de-activation and termination.	Completed
One time rerun the User Access Review with the new SAP service pack to increase the automated process success rate to 98%.	Completed
Complete an independent validation of the material weakness remediation	Completed

Title of Material Weakness	
Financial System owners lack standardized and specific control criteria guidance (ICOFs-8-MW)	
Description of Material Weakness	
Financial System owners lacked standardized and specific information technology (IT) control criteria guidance for system audit readiness.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q1 FY 2018	
CAP Milestones	Status
Developed and published Department of the Navy (DON) Enterprise IT control standards.	Completed
System Owners employed DON Enterprise IT control standards.	Completed
Completed independent validation of the material weakness remediation.	Completed

Title of Material Weakness	
DON lacks guidance and validation processes to resolve system Federal Information System Controls Audit Manual (FISCAM) deficiencies (ICOFS-3-MW)	
Description of Material Weakness	
The Department of the Navy (DON) lacks guidance and validation processes to ensure that DON systems material to the financial statements have resolved deficiencies in FISCAM domains.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q3 FY 2018	
CAP Milestones	Status
Published policy regarding transition from the Department of Defense (DoD) Information Assurance Certification and Accreditation Process (DIACAP) to the Risk Management Framework (RMF) process, which provides a better risk management process for audit readiness.	Completed
Published RMF Financial Management (FM) Overlay guidance to supplement RMF for financial audit-relevant systems.	Completed
Published DON Enterprise information technology (IT) Controls Standards.	Completed
Closed 80% of identified FISCAM deficiencies (80% selected because 100% is not a viable goal – there may always be a new FISCAM deficiency appearing somewhere in the DON).	Completed
Stood up an Enterprise Continuous Monitoring Program (ECMP) to identify and correct any new deficiencies that appear.	Completed
Completed an independent validation of the material weakness remediation.	Completed

Material Weakness Removal

In the Department of the Navy (DON) fiscal year (FY) 2018 Statement of Assurance, certain matters were noted involving internal controls that the DON considered to be material weaknesses (MW) under standards established by the Government Accountability Office Green Book.

A MW is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented or corrected on a timely basis.

A determination that a MW has been corrected or reclassified should be made only when sufficient corrective actions have been taken and the desired results achieved. The DON Senior Assessment Team and Senior Management Council determined that the following MWs had sufficient evidentiary artifacts and corrective actions (as demonstrated in the "Material Weaknesses and Corrective Action Plans" section), were remediated or downgraded, and should be removed from the DON MW list:

Unique Identification Number	Assessable Unit	MW Identified	Audit vs. Self-Identified	Removal Date	Removal Reason
ICOFR-21: VISTA Functionality	Office of Financial Policy and Systems (FMP)	Visual Inter-Fund System Transaction Accountability (VISTA) Controls	Self-Identified	Q1 FY 2018	Corrected
ICOFS-8: Financial System Owners	Office of Financial Policy and Systems (FMP)	Financial system owners lack standardized and specific control criteria guidance	Self-Identified	Q1 FY 2018	Corrected
ICOFR-7: Beginning Balances	Office of Financial Operations (FMO)	The Navy's beginning balances are unsupported	Self-Identified	Q3 FY 2018	Corrected
ICOFS-3: FISCAM Deficiencies	Office of Financial Policy and Systems (FMP)	DON lacks guidance and validation processes to resolve system FISCAM deficiencies	Self-Identified	Q3 FY 2018	Corrected
ICOFR-16: MSC Liquidations and Payments	United States Marine Corps (USMC)	Military Sealift Command (MSC) liquidations and payments lack supporting receipt and acceptance documentation for USMC.	Self-Identified	Q4 FY 2018	Corrected
ICOFS-1: Navy ERP SOD deficiencies	Office of Financial Policy and Systems (FMP)	The Navy Enterprise Resource Planning (ERP) system currently has numerous segregation of duties (SOD) deficiencies	Self-Identified	Q4 FY 2018	Corrected
ICOFR-8: Transportation Account Codes	Naval Supply Systems Command (NAVSUP)	No effective controls are in place to prevent unauthorized use of transportation account codes (TAC)	Self-Identified	Q4 FY 2018	Reassessed from MW to control deficiency

Attachment 1: Acronym List

Acronym	Term
A/P	Accounts Payable
ACA	Annual Cost Authority
ACRN	Accounting Classification Reference Number
ADA	Antideficiency Act
ADM	Aviation Depot Maintenance
AIRRS	Aircraft Inventory and Readiness Reporting System
ALE DWDAS	Aviation Logistics Environment Data Warehouse and Decision Analysis Support
AJE	Adjusting Journal Entries
AM	Asset Management
AMARG	Aerospace Maintenance and Regeneration Group
AO	Action Officer
AOB	Annual Operating Budget
AOIC	Assistant Officer in Charge
APO	Accountable Property Officer
APSR	Accountable Property System of Record
ARC	Audit Response Center
AREC	Aviation Readiness Executive Council
ASN	Assistant Secretary of the Navy
ASN (EI&E)	Assistant Secretary of the Navy (Energy, Installations, and Environment)
ASN (FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
ASN (M&RA)	Assistant Secretary of the Navy (Manpower and Reserve Affairs)
ASN (RD&A)	Assistant Secretary of the Navy (Research, Development, and Acquisition)
ASR	Accounting System of Record
AU	Assessable Unit
AUP	Agreed Upon Procedure
BB	Beginning Balance
BMS	Business Management System
BPAC	Business Process Application Controls
BPC	Building Partner Capacity
BPI	Business Process Improvement
BPR	Business Process Reengineering
BSO	Budget Submitting Office
BTS	Business Transaction Systems
BUMED	Navy Bureau of Medicine and Surgery
BUPERS	Bureau of Navy Personnel
C4I	Command, Control, Communications, Computers, and Intelligence
CAC	Common Access Card
CAMS-ME	Capital Asset Manager System - Military Equipment
CAP	Corrective Action Plan
CAV-ORM	Commercial Asset Visibility-Organic Repairables Module

Acronym	Term
CFMS-C	Command Financial Management System-Consolidated
CHINFO	Navy Office of Information
CIO	Chief Information Officer
CIP	Construction in Progress
CIRCUITS	Centralized and Integrated Reporting for the Comprehensive Utilities Information Tracking System
CIVPAY	Civilian Pay
CMC	Commandant of the Marine Corps
CMLS	Corrective Maintenance & Logistics System
CMOS	Cargo Movement Operations System
CNIC	Commander, Navy Installations Command
CNO	Chief of Naval Operations
CNP	Chief of Naval Personnel
COMFRC	Commander, Fleet Readiness Centers
COTS	Commercial off-the-Shelf
CP	Contract Pay
CPI	Continuous Process Improvement
CPPA	Command Pay and Personnel Administrator
CUEC	Complementary User Entity Control
CVP	Contract/Vendor Pay
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)
DCAA	Defense Contract Audit Agency
DCAS	Defense Cash Accountability System
DCMA	Defense Contract Management Agency
DCPO	Deputy Command Property Officer
DCPS	Defense Civilian Payroll System
DDEF	Defense Daily Expenditure File
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System - Audited Financial Statements
DDRS-B	Defense Departmental Reporting System - Budgetary
DDS	Deployable Disbursing System
DECKPLATE	Decision Knowledge Programming for Logistics Analysis and Technical Evaluation
DFAS	Defense Finance and Accounting Service
DFAS-CL	Defense Finance and Accounting Service – Cleveland
DFAS-CO	Defense Finance and Accounting Service – Columbus
DIACAP	DoD Information Assurance Certification and Accreditation Process
DIFMS	Defense Industrial Financial Management System
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DLMS	Defense Logistics Management Standards
DMDC	Defense Manpower Data Center

Acronym	Term
DNS	Director, Navy Staff
DoD	Department of Defense
DoD FMR	Department of Defense Financial Management Regulation
DoDI	Department of Defense Instruction
DoD IG	Department of Defense Inspector General
DON	Department of the Navy
DON/AA	Department of the Navy Assistant for Administration
DPAS	Defense Property Accountability System
DPM	Deputy Program Manager
DRAS2	Defense Retiree and Annuitant Pay System
DSS	Distribution Standard System
DUSN (M)	Deputy Under Secretary of the Navy (Management)
DUSN (P)	Deputy Under Secretary of the Navy (Policy)
DWAS	Defense Working Capital Fund Accounting System
E&C	Existence and Completeness
ECMP	Enterprise Continuous Monitoring Program
EIS	Enterprise Information System
ELC	Entity-Level Controls
EMALL	Electronic Mall
eMASS	Enterprise Mission Assurance Support System
EOU	Excess, Obsolete, and Unserviceable
EPR	Evaluate, Prioritize, and Remediate
ePS	Electronic Procurement System
ERP	Enterprise Resource Planning
EYG	Execution Year Guidance
FAM	Functional Area Managers
FASTDATA	Fund Administration and Standardized Document Automation
FBwT	Fund Balance with Treasury
FCRC	Fleet Commanders' Readiness Council
FEDMALL	Federal Mall
FFC	Fleet Forces Command
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FIS	Facilities Information System
FISCAM	Federal Information System Controls Audit Manual
FISWG	Financial Information Systems Working Group
FLJV	Field Level Journal Voucher
FMB	Office of Budget
FMFIA	Federal Managers' Financial Integrity Act
FMO	Office of Financial Operations
FMP	Office of Financial Policy and Systems
FMR	Financial Management Regulation

Acronym	Term
FMS	Foreign Military Sales
FOC	Full Operational Capability
FRD	Fund Receipt and Distribution
FSA	Field Support Activity
FSCR	Financial Statement Compilation and Reporting
FY	Fiscal Year
FYDP	Future Years Defense Program
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCSS	Global Combat Support System
GE	General Equipment
GEX	Global Exchange Service
GF	General Fund
GFEBs	General Fund Enterprise Business Systems
GIS	Geographic Information System
GITC	General Information Technology Controls
GL	General Ledger
GLAC	General Ledger Account Codes
GLAS	General Ledger Accounting Systems
GSA	General Services Administration
GT&C	General Terms and Conditions
HQMC	Headquarters, U.S. Marine Corps
HR	Human Resources
HSP	Husbanding Service Provider
ICO	Internal Controls over Operations
ICOFr	Internal Control over Financial Reporting
ICOFs	Internal Controls over Financial Systems
IMPS	Integrated Management Processing System
iNFADS	Internet Navy Facilities Asset Data Store
IOC	Initial Operating Capability
IPA	Independent Public Accountant
IPAC	Intra-Governmental Payment and Collection
IPO	International Programs Office
iRAPT	Invoicing, Receipt, Acceptance, and Property Transfer
IT	Information Technology
ITIMP	Integrated Technical Item Management & Procurement
IV&V	Impartial Verification and Validation
JPAS	Joint Personnel Adjudication System
JV	Journal Voucher
KSD	Key Supporting Documents/Documentation
LAC	Latest Acquisition Cost
LMSIS	Labor Management Support Information System

Acronym	Term
LOA	Line of Accounting
MAC	Moving Average Cost
MAU	Major Assessable Unit
MCSC	Marine Corps Systems Command
MCTFS	Marine Corps Total Force System
MICP	Managers' Internal Control Program
MILCON	Military Construction
MILPAY	Military Pay
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MNCC	MyNavy Career Center
MOR	Memorandum of Request
MOU	Memorandum of Understanding
MPT&E	Manpower Personnel Training and Education
MSC	Military Sealift Command
MSC-FMS	Military Sealift Command Financial Management System
MUOS	Mobile User Objective System
MW	Material Weakness
NAS	Naval Air Station
NAVADMIN	Naval Administrative Message
NAVAIR	Naval Air Systems Command
NAVAUDSVC	Naval Audit Service
NAVFAC	Naval Facilities Engineering Command
NAVINGEN	Naval Inspector General
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
NCIS	Naval Criminal Investigative Service
NDMS-TAA	NAVAIR Depot Maintenance System – Time and Attendance
NEC	Navy Enlisted Classification
NFR	Notice of Findings and Recommendations
NFT	Navy Fund Balance Tool
NIA	Naval Intelligence Activity
NIIN	National Item Identification Number
NIST	National Institute of Standards and Technology
NMCI	Navy/Marine Corps Intranet
NP2	Navy Personnel and Pay System
NRFI	Not Ready for Issue
NSIPS	Navy Standard Integrated Personnel System
NSMA	Navy Systems Management Activity
NWCF-SM	Navy Working Capital Fund – Supply Management
O&M	Operations and Maintenance – Navy
O&MR	Operations and Maintenance – Naval Reserve
OCIO	Office of the Chief Information Officer

Acronym	Term
OCMO	Office of the Chief Management Officer
OGC	Office of the General Counsel
OIS	Ordnance Information System
OJAG	Office of Judge Advocate General
OLA	Office of Legislative Affairs
OM&S	Operating Materials and Supplies
OM&S-R	Operating Materials and Supplies – Remainder
OMB	Office of Management and Budget
ONR	Office of Naval Research
OPNAV	Office of the Chief of Naval Operations
OPNAVINST	Office of the Chief of Naval Operations Instruction
OPR	Office of Primary Responsibility
OSBP	Office of Small Business Programs
OSD	Office of the Secretary of Defense
OSD-TFA	Office of the Secretary of Defense- Transportation Financial Auditability
OUSD	Office of the Under Secretary of Defense
P&R	Programs and Resources
P4	Personal For
PACFLT	Commander, U.S. Pacific Fleet
PB	President’s Budget
PBIS	Program Budget Information System
PCM	Process Cycle Memorandum
PEO	Program Executive Office
PERS-Pay	Personnel Pay Division
PERS-213	Officer Subspecialty Management and Graduate Education Section
PGC	Property Governance Council
PIEE	Process to Improve Efficiency of Expenditures
PIS	Placed-In-Service
PKI	Public Key Infrastructure
PMO	Program Management Office
PMW	Program Manager, Warfare
POA&M	Plan of Action and Milestones
POIC	Primary Officer in Charge
PP&E	Property, Plant and Equipment
PVI	Periodic Virtual Inventory
QCI	Quantity of Components Installed
Q1	Quarter 1
Q2	Quarter 2
Q3	Quarter 3
Q4	Quarter 4
R&A	Receipt and Acceptance
R&C	Reconciliation and Closeout

Acronym	Term
R-Supply	Relational Supply Optimized
RESFOR	Commander, Navy Reserve Force
RMF	Risk Management Framework
RP	Real Property
RPO	Real Property Officer
RWO	Reimbursable Work Order
RWO-G/P	Reimbursable Work Order – Grantor/Performer
SABRS	Standard Accounting Budgeting Reporting System
SAO	Senior Accountable Official
SAP	Special Access Programs
SAPRO	Sexual Assault Prevention and Response Office
SAT	Senior Assessment Team
SBT	Standard Business Transactions
SD	Significant Deficiency
SDM	Ship Depot Maintenance
SEA05C	Cost Engineering and Industrial Analysis Division
SECDEF	Secretary of Defense
SECNAV	Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction
SES	Senior Executive Service
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
ShipCLIP	Ship-Based Configuration Logistics Improvement Program
SLA	Service Level Agreement
SLDCADA	Standard Labor Data Collection and Distribution Application
SMC	Senior Management Council
SMEC	Ship Maintenance Executive Council
SOA	Statement of Assurance
SOC	System and Organization Control
SOD	Segregation of Duties
SOP	Standard Operating Procedure
SPAWAR	Space and Naval Warfare Systems Command
SPECWAR	Naval Special Warfare Command
SPS	Standard Procurement System
SRR	Strategic Readiness Review
SSEE	Ships Signal Exploitation Equipment
SSP	Strategic Systems Programs
SSP	Shared Service Provider
STARS	Standard Accounting Reporting System
STARS-FL	Standard Accounting and Reporting System – Field Level
SYSKOM	Systems Command

Acronym	Term
TAC	Transportation Account Code
TBD	To Be Determined
TDD	Treasury Direct Disbursing
TFA	Transportation Financial Auditability
TMS	Transportation Management System
TO	Task Order
ToP	Transportation of People
ToT	Transportation of Things
TU	Transaction Universe
UAE	Uninstalled Aircraft Engine
UDO	Undelivered Order
UFCO	Unfilled Customer Order
USMC	United States Marine Corps
USMC DDS	United States Marine Corps Deployable Disbursing System
USSGL	United States Standard General Ledger
VCNO	Vice Chief of Naval Operations
VDNS	Vice Director, Naval Staff
VISTA	Visual Inter-Fund System Transaction Accountability
WAWF	Wide Area Work Flow
WAC	Weighted Average Cost
WCF	Working Capital Fund
WCF-INV	Working Capital Fund Inventory
WebCAV	Web-based Commercial Asset Visibility
WinIATS	Windows Integrated Automated Travel System
WLS	Workload Standards

Attachment 2: Points of Contact

The Department of the Navy (DON) Points of Contact for the Managers' Internal Control Program and issues dealing with material weaknesses reported in the DON's Fiscal Year 2018 Federal Managers' Financial Integrity Act Statement of Assurance are:

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FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT
STATEMENT OF ASSURANCE
FY 2018



DEPARTMENT OF THE NAVY
